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## Israelis Report Key Palestinian Bases Captured



Palestinian guerrillas ran for cover Monday as Israeli planes attacked several buildings around the Arab University and near the offices of the Palestine Liberation Organization in Beirut.

## Beirut Is Bombed; Syrian MiG Is Shot Down in a Dogfight

TEL AVIV — Israeli forces in southern Lebanon captured the Palestinian stronghold of Tyre on Monday, the military command said. It also said the Israelis had captured the town of Nabatieh and were surrounding Sidon.

Israel also reported Monday night that its planes had shot down a Syrian MiG-23 in a dogfight over Beirut. An army spokesman said Syrian fighters had tried to intervene during an Israeli air raid on Palestinian targets near Beirut and that one had been downed.

In addition to the capture of Tyre, a port and Palestinian military center on the Mediterranean 12 miles (19 kilometers) north of the border, Israel also announced Monday the taking of the key Palestinian stronghold of Beaufort Castle, which is the guerrillas' main forward base in the rugged interior, and the town of Hasbaya.

Israeli planes also bombed targets close to the Beirut headquarters of Yasser Arafat, the Palestine Liberation Organization chairman, on the second day of the offensive against Palestinian guerrillas.

A Lebanese police spokesman said five Syrian MiG fighters challenged the Israeli planes and one of them was shot down. The spokesman said two Syrian pilots bailed out and were taken in hospitals with critical injuries.

The Israeli planes also hit Beirut's main sports stadium, the second attack in three days on the suspected PLO arms depot and training camp.

In Beirut, official Lebanese sources confirmed that the Israelis had captured Beaufort Castle, Hasbaya and Nabatieh. However, the Palestinian news agency Wafa denied that the Israelis had taken Beaufort.

Beaufort Castle is a fortress dating back to the Crusades that overlooks the border, and Hasbaya is a strategic town guarding the approaches to Syrian-controlled territory in the Bekaa Valley.

**Objective Reported Met**

Maj. Gen. Rafael Eitan, the Israeli chief of staff, said Monday that all of the objectives set for the army so far have been achieved ahead of schedule and that areas behind the advancing troops have been cleared of guerrillas.

Prime Minister Menachem Begin met Monday night with Philip C. Habib, the special U.S. envoy, and reportedly told him that Israeli

would not agree to any cease-fire that would allow the guerrillas to move back within artillery range of civilian settlements in the northern Galilee.

Israeli military officials conceded that the advancing armored and infantry brigades were meeting stiff resistance in some sectors, but they denied that their troops had clashed with Syrian forces directly.

An army spokesman said the Syrians had been assured through diplomatic channels that the Israeli forces were not interested in engaging the Syrian Army in Lebanon.

Syria reported that two Israeli

aircraft were shot down while one Syrian MiG was lost.

The Syrians have reinforced their 30,000-man force in Lebanon with an armored division since the Israeli invasion began Sunday, sources in Damascus reported.

The Israeli military command confirmed that an amphibious landing had been made north of Sidon, which is 27 miles south of the capital, and a military spokesman said infantry and paratroopers landed with tanks and armored personnel carriers.

Gen. Eitan was quoted on Israeli radio as saying his troops had taken a zone in the Lebanese coast north of Sidon, about 30 miles from the border. He also announced the capture of Hasbaya.

Syrian forces are believed to be slightly farther north, and Gen. Eitan said Israeli forces had been shelled from that zone, where Palestinians also are located. "I'm not sure it was the Syrians," he said.

Gen. Eitan said of the pace of the invasion: "The most unexpected thing is that we have advanced the timetable."

The chief of staff said he had met with the commander of the UN peacekeeping forces in Lebanon, Maj. Gen. William Callaghan of Ireland. "I brought him up to date... so that there will be no accidental clash between our army and his troops," Gen. Eitan said.

In Beirut, at least two rockets hit the U.S. Embassy. A spokeswoman for the State Department in Washington said the embassy was damaged but there were no casualties. She said there was no indication who was responsible for the attack.

Western correspondents along the easternmost prong of the 33-mile invasion front reported that dozens of camouflaged trucks filled with Palestinian guerrillas had been seen moving north into the Bekaa Valley, where Syria has SAM-6 anti-aircraft missile batteries.

## British Outflank Argentines, Seek Surrender, Report Says

LONDON — British troops outflanked the Argentine garrison by capturing high ground north of Stanley on Monday, and the British commander urged the Argentine to surrender and "end the killing," British press reports said.

The domestic news agency Press Association said that no information was available in London on Brig. Gen. Mario Menéndez reply to the plea from Maj. Gen. James Moore, commander of the British ground forces massed for assault on the capital of the Falkland Islands.

The Defense Ministry declined comment on the report.

Press Association, whose correspondents are briefed regularly by high British government officials, said in an unattributed report that Gen. Moore radioed Gen. Menéndez on a VHF transmitter using a Spanish-speaking British marine captain as interpreter.

"Let's end the killing," the agency quoted Gen. Moore as saying.

Twice last week, British planes dropped leaflets over Stanley urging Argentine troops to give up.

Earlier, the British Defense Ministry said Argentine planes bombed the advancing British troops Monday without causing casualties and that British guerrillas shelled the Argentine garrison.

In the first official report in six days on the tightening British ring

around the Argentine stronghold, the spokesman, Ian McDonald, said "British troops are patrolling forward territory and consolidating their positions" close to the Argentine defensive perimeter.

He said at a news conference that the air raids were probably carried out by British-built Canberra bombers. At the time, Argentine traders are finding ways to thwart EEC sanctions. Page 3.

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## PLO's Shellings Prompted Assault

The following dispatch has been submitted to Israeli military censorship.

By David K. Shipley

JERUSALEM — Israel's invasion of Lebanon came on Sunday as the culmination of months of military and political calculation in which Prime Minister Menachem Begin repeatedly allowed the troops to be massed and the saber to be rattled, only to pull back at what seemed like the last moment.

Until Sunday the crucial factors favoring a major assault never quite lined up, and the risks seemed greater than the potential benefits.

This time, however, Mr. Begin decided to take the military gamble and to pay the political cost. The crucial reason was the intensive shelling of northern Israel by forces of the Palestine Liberation Organization, which began Friday afternoon after Israeli air attacks on Palestinian bases near Beirut.

## Reagan Flies to U.K. After Visits in Rome

From Agency Dispatches

LONDON — President Reagan arrived Monday night for a two-day visit, as Britain remained preoccupied with the conflict over the Falkland Islands.

Mr. Reagan, who flew to London from Rome, was greeted at Heathrow Airport by Prince Philip and Prime Minister Margaret Thatcher. The president boarded a U.S. Marine helicopter for a brief flight

## Chad Rebels Capture Njamena With Ease

By Charles T. Powers

Los Angeles Times Service

NAIROBI — The rebel forces of Hissène Habré, the former Chadian defense minister, entered Njamena about dawn Monday, apparently securing the city and taking over the government of Chad within three hours, according to diplomatic sources here.

No immediate word was available on the whereabouts of Chad's president, Goukouni Oueddei, whose desperate efforts to save his government, including a last-ditch appeal to Col. Mouammar Qadhafi of Libya, apparently have failed.

Officials in Paris said that the French Embassy in Njamena reported only brief fighting before the city fell to the rebels. They were unable to confirm reports in Paris that Mr. Goukouni had been killed crossing the Chari River which forms the frontier with Cameroon.

The troops of Mr. Habré's Armed Forces of the North had been closing in on the Chadian capital for the last two weeks. Mr. Habré had been driven from Njamena in November, 1980, when Col. Qadhafi sent Libyan troops to support Mr. Goukouni in the Chadian civil war which has gone on with brief interruptions for the last 18 years.

4 Major Factions

Mr. Habré leads one of four major factions which have been fighting for control of the country in recent years. At one time, there were 13 warring groups in Chad.

Mr. Habré's advance into Njamena apparently was unimpeded by the 3,000 men of the peace-keeping force from the Organization of African Unity. The OAU troops, from Nigeria, Zaire and Senegal, were sent to Chad in December to replace about 8,000 Libyan soldiers with whom Presi-

## Versailles: U.S. Saved Face, but Gained Little

By Hedrick Smith

New York Times Service

VERSAILLES, France — President Reagan traded a last-minute concession on global economic negotiations with the Third World for a modest, face-saving gain in his campaign to curb credits to the Soviet Union. But American brawlers at the economic summit conference here were far short of what Washington had hoped for in advance.

In a very real sense, the Reagan administration fared better defensively than offensively at the summit meeting. The president protected the laissez-faire doctrine of Reaganomics from persistent French pressure for a clear-cut pledge of government intervention to stabilize volatile currency markets.

Although Mr. Reagan was criticized for high U.S. interest rates, he was spared, in the final declaration, any specific denunciation of the large U.S. budget deficits and the interest rates that other nations blame for stalling their own economic recovery.

As the only leader at Versailles who chose to summarize the three days of talks in a prepared statement rather than at a personal news conference, Mr. Reagan hailed "the spirit of partnership" that had prevailed. And, evidently, for the sake of solidarity and partnership, he was prepared to settle for less headway than he really wanted on some pet American objectives.

Gamely, Treasury Secretary Donald T. Regan insisted to reporters that the U.S. delegation was "more than satisfied" on the controversial credit issue because the six other nations had publicly pledged to "handle cau-

## INSIDE

■ West Germany's Social Democratic Party acknowledged the deep psychological effect of its defeat in the Hamburg state elections and said that the results created strong new pressures on the federal coalition in Bonn. Page 4.

■ Some of the United States' European allies reportedly have been putting quiet pressure on the Pentagon to reduce the percentage of blacks in the armed forces and to limit the number of blacks assigned to NATO. Page 4.

■ The Reagan administration reportedly has fashioned a new military strategy for Asia that emphasizes a shift in planning and forces from Northeast Asia to Southeast Asia and the Indian Ocean. Page 7.

■ Iran's once-bustling port city of Khorramshahr, which Iranian forces recaptured from the Iraqis, is a wasteland of rubble, minefields and abandoned trenches. Virtually no building has escaped destruction. There is no life in the ruins. Page 5.

■ A supplement describes Spain's economy. Page 9S.



President Reagan, followed by Prince Philip, reviewing a unit of the Coldstream Guards in ceremonies Monday at Windsor Castle. He is spending two days as the guest of Queen Elizabeth.

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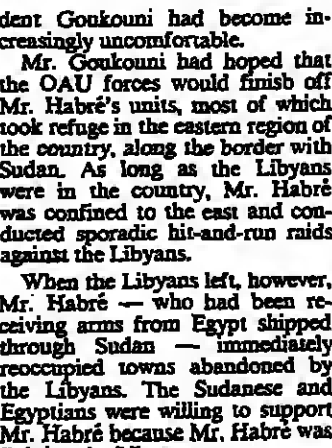
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Hissène Habré

dent Goukouni had become increasingly uncomfortable.

Mr. Goukouni had hoped that the OAU forces would finish off Mr. Habré's units, most of which took refuge in the eastern region of the country, along the border with Sudan. As long as the Libyans were in the country, Mr. Habré was confined to the east and conducted sporadic hit-and-run raids against the Libyans.

When the Libyans left, however, Mr. Habré — who had been receiving arms from Egypt shipped through Sudan — immediately reoccupied towns abandoned by the Libyans. The Sudanese and Egyptians were willing to support Mr. Habré because Mr. Habré was fighting the Libyans.

Mr. Goukouni lobbied hard with fellow African heads of state at several OAU sessions on Chad to have the OAU peace-keeping force make the offensive against Mr. Habré. He met with no success, and a mutual distrust seemed to build between Mr. Goukouni and other African leaders, who considered him to be weak and duplicitous.

A special Chad committee of the OAU urged Mr. Goukouni to meet Mr. Habré for negotiations and in February passed a resolution that set a deadline of this Wednesday for those negotiations to begin. The resolution also called for withdrawal of the OAU forces by the end of this month.

2 Big Quakes Rock Mexico

MEXICO CITY — Two major earthquakes, measuring 6.5 and 6.9 on the Richter scale, rocked central Mexico Monday morning, but authorities reported no deaths and only minor damage. The quakes were about four hours apart.

But Mr. Goukouni, who has sentenced Mr. Habré to death in absentia as a "war criminal," refused to meet Mr. Habré, whose advance through the scattered desert towns of the northern and central regions remained unchecked.

Saturday night, Mr. Habré's forces took the town of Massaguet, only 30 miles (80 kilometers) north of Njamena.

Over the weekend, civilians reportedly fled across the Chari River from Njamena, whose central buildings are still in rubble from the heavy fighting in December, 1980.

Most of those leaving Njamena were taking refuge in the Cameroon town of Kousséri. A refugee camp there once held 25,000 Chadians who fled earlier fighting.

Chad is a desperately poor, land-locked central African nation with a population of about 4 million. The northern two-thirds of the country is desert, the southern third densely tropical. It is a former French colony, independent since 1960.

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several cities in the East and Midwest in 1979.

About 250 American priests, seminarians and families of U.S. diplomats cheered and applauded Mr. Reagan and his wife, Nancy, when they entered a nearby hall for a reception.

Mr. Reagan then went to Premier Giovanni Spadolini's office in Rome to shake hands with the seven Italian police officers who had rescued U.S. Brig. Gen. James L. Dozier from his terrorist kidnappers in January. The president told the seven that with the help of men like them "we are going to wipe terrorism off the face of the earth."

At a luncheon in Rome, Mr. Reagan saluted President Sandro Pertini, saying he was "deeply hon-

ored to call you amico," or friend. He also praised Italy's contributions to NATO, its stand on Poland and on the Soviet intervention in Afghanistan, and its rescue of Gen. Dozier from terrorist captors.

In his toast, Mr. Pertini denounced what he called Israel's "brutal invasion" of Lebanon.

issue of stepped-up negotiations over economic aid for underdeveloped nations, Mr. Reagan interrupted to say he needed more time to think over that item. He even proposed a 20-minute break.

But the discussion instead turned back to export credits for the Soviet Union. U.S. officials said that Mr. Reagan never explicitly said he would not give ground on the North-South issue until France yielded on the credit issue, but they said his tactics set up that bargain.

After an hour and a half of haggling over language on the credit portion of the final declaration, Mr. Mitterrand went along with a watered-down version. Mr. Reagan then agreed quickly for the first time that the United States would accept an Algerian proposal for a 77-nation Third World group as "the basis" for arranging an agenda for a large economic conference of both advanced and developing nations. Canadian, French and European Economic Community leaders hailed this as "a major breakthrough."

The gain for the Reagan administration on the credit issue was the indirect pledge of the other nations to limit the amount of government subsidized credits and the accompanying agreement to have information on their overall East-West trade pooled.

The disappointment, however, was that, unlike the 1979 summit conference in Tokyo, which adopted specific numerical targets for limiting energy imports, this conference set no specific ceilings on the amount of official credits to finance exports to the Soviet Union. Some U.S. officials contended that official credit would decline, but others said this was (Continued on Page 7, Col. 7)

that he was visiting Europe for the first time as president and said, "I would like to think of it as a pilgrimage for peace, a journey aimed at strengthening the forces for peace in the free West by offering new opportunities for realistic negotiations with those who may not share the values and the spirit we cherish."

"We seek the same goals of peace, freedom and humanity that the church pursues," he said.

He spoke of the conflicts in Latin America and the Middle East and called Poland, the pope's native country, a "martyred nation" that had been a "bastion of freedom." Mr. Reagan called for an end to martial law in Poland, freedom for political prisoners and renewed talks between the government and Solidarity.

He also pledged to work for "arms reduction to help bring a real and lasting peace to the world" and called on the Roman Catholic Church to help him "prevent the spread of repression and godless tyranny" in Latin America.

The pope said peace "is not only the absence of war. It also involves reciprocal trust between nations — a trust that is manifested and proved through constructive negotiations that aim at ending the arms race."

Mr. Reagan, his voice becoming hoarse, said the pope should return to the United States to visit the Western states. The pope visited



## WORLD BRIEFS

## SWAPO Leader Optimistic on Talks

DAR ES SALAAM — Western nations are now serious about negotiating a settlement for South-West Africa (Namibia), the South West Africa People's Organization leader, Sam Nujoma, was reported Monday as saying.

"There seems to be a definite degree of seriousness in the so-called contact group's approach to the negotiations," he said during a stopover here Sunday as he returned from talks in Bonn, the official Tanzanian news agency, Shabaha, reported.

Namibia is ruled by South Africa, and SWAPO has rejected a balloting system for independence that was proposed by the United States, Britain, France, West Germany and Canada, who form the contact group. But officials from the group are due to start a tour this week of southern African Front-line states that support SWAPO: Tanzania, Angola, Botswana, Mozambique, Zambia and Zimbabwe.

## Turkish Diplomat Killed in Lisbon

LISBON — Gunmen shot and killed a Turkish diplomat at his home near Lisbon Monday and severely wounded his wife, Portugal's radio reported.

Police were quoted as saying that Erkin Akbar, an embassy adjutant, and his wife were attacked by "one or more gunmen" as they left their suburban home. His wife was unconscious in a Lisbon hospital.

Police sources quoted by the radio said they suspected Armenian terrorists of carrying out the attack.

## Regional Votes Test Marcos Program

ZAMBOANGA, Philippines — The ruling New Society Movement of President Ferdinand Marcos trailed in one region and led in another Monday, according to unofficial early returns in elections for assemblies in two autonomous Moslem regions in the southern Philippines.

Observers said that the turnout for 34 seats in two regional assemblies would reflect the amount of support that Mr. Marcos has gained for his program of limited self rule for the region's 2.5 million Moslems.

Mr. Marcos, under pressure from several Islamic nations, established the regional assemblies in 1979 in an effort to halt the fighting that has killed an estimated 60,000 people during the past decade.

## Mozambican Security Chief Defects

JOHANNESBURG — Mozambique's national security director defected to South Africa on Monday, saying the Soviet Union was trying to dominate his country.

George Costa, 30, applied for political asylum at Jan Smuts Airport and asked for permanent residence. In an interview on South African television, he said in halting English, "I am convinced there is a conspiracy by the Soviet Union to put defeat in my country."

Mr. Costa, who is of Portuguese descent, said Soviet influence grew in Mozambique after independence from Portugal in 1975, and "they are taking over a lot of our economy — to command a lot of our economy." He said the Soviet Union was interested in Mozambique "because they have a main target, and the main target is southern Africa."

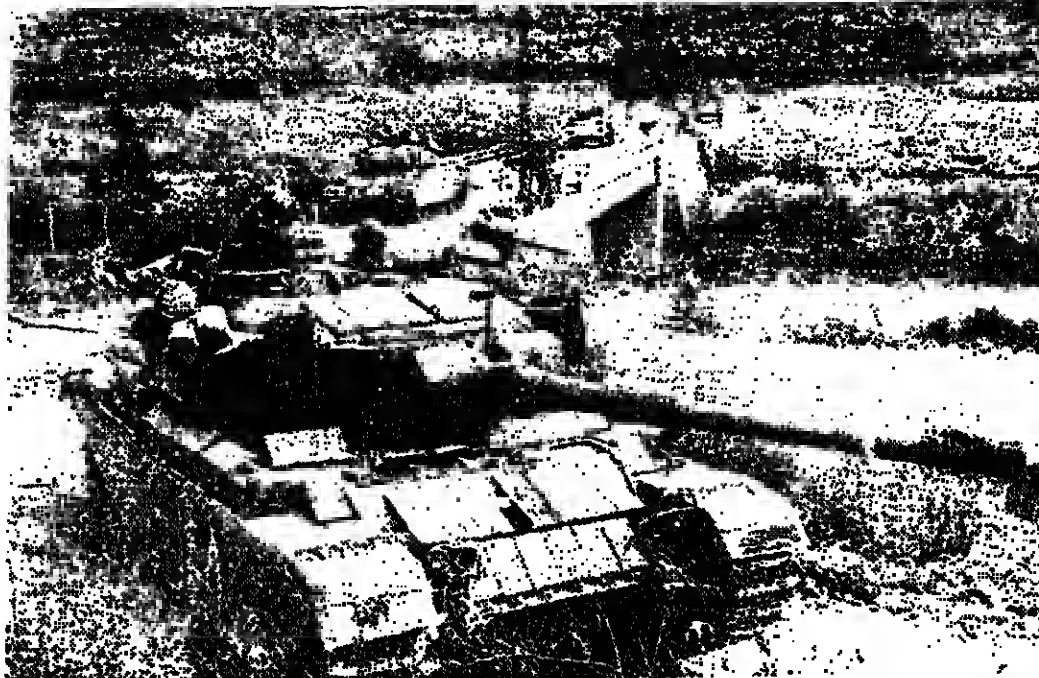
## S. Africa Aide Testifies in Aggett Death

JOHANNESBURG — A government doctor testified Monday that he could not rule out that union activist Neil Aggett was strangled to death in police custody. But he said he still believed that Dr. Aggett hanged himself in his cell.

Johannesburg Chief Surgeon Vernon Kemp, who did the autopsy on Dr. Aggett's body, appeared at an inquest into the death at city police headquarters Feb. 5. Dr. Aggett, a 23-year-old medical doctor and organizer for a black trade union, was the first white to die while being detained without charge under the country's sweeping security laws.

The inquest, to determine the cause of death, was reopened after a seven-week break with the submission of a sworn statement that Dr. Aggett made 14 hours before he died in which he alleged that he had been tortured during his 70 days in detention. The Pretoria Supreme Court decided last week that the statement could be heard, overruling government objections that the document would compromise security police methods.

Compiled From Agency Dispatches



Israeli tanks crossing the Litani River into southern Lebanon to attack Palestinian guerrilla bases.

## U.S. Regrets Violence in Lebanon But Ties Invasion to PLO Shelling

From Agency Dispatches

WASHINGTON — The U.S. government Monday said that it regrets the "spiral of violence" in Lebanon, but it appeared to take Israel's view that the invasion was justified because of the shelling of Israel from southern Lebanon.

Other international reaction to Israel's invasion of Lebanon was overwhelmingly negative. The Soviet government Monday "emphatically condemned" the Israeli invasion and warned that "Israel's aggression against Lebanon and the Palestinian people is once again taking the Middle East to a dangerous line."

The Soviet Union demands an immediate cessation of Israel's armed invasion of Lebanon and a pullout of the Israeli troops to their territory," a government statement said.

Moscow called on the UN Security Council to "immediately take measures to curb the aggression and to compel Israel" to respect previous UN decisions and

the sovereignty and territorial integrity of Lebanon.

In a 15-0 vote Sunday night, the Security Council requested Israel to withdraw "forthwith and immediately" from southern Lebanon.

Alan Romberg, the State Department deputy spokesman, said Israel should withdraw its forces from Lebanon but added that there must also be a halt to attacks into Israel as part of any settlement.

"Israel will have to withdraw its forces from Lebanon, and Palestinians will have to stop using Lebanon as a launching pad for attacks on Israel," he said in a statement.

In Cairo, President Hosni Mubarak of Egypt condemned the invasion as "a flagrant aggression against Lebanon's sovereignty" and demanded the immediate withdrawal of Israeli troops. But Premier Fawzi Mohamed said Cairo has no plans to provide military aid to Lebanon.

"Of course the invasion handicaps the peace talks," Mr. Mohamed said. "After the effects of the invasion are abolished completely, we can re-meet with the Israelis

and resume our talks about autonomy."

The Palestine Liberation Organization Monday accused UN peace-keeping forces of collaboration with invading Israeli troops in their thrust into Lebanon.

Hasan Abdel Rahman, the PLO deputy permanent observer at the United Nations, said it dealt a "serious blow" to the credibility of the organization. There was no immediate comment by UN officials.

Iran called on Islamic countries Monday to use their military and economic strength, including their control of the flow of oil, to fight the invasion. President Ali Khamenei condemned Israel's invasion and said that Iran was ready to send troops to fight what he called the "Zionist aggression."

In a message read on Lebanese radio, Ayatollah Ruhollah Khomeini called on Islamic countries to fight a holy war against Israel to regain occupied Arab lands.

In Brussels, efforts were under way to see if the foreign ministers of the European Economic Community countries should meet to discuss the Israeli action, a Belgian Foreign Ministry source reported.

## PLO Official in U.K. on 'Hit List'

New York Times Service

LONDON — Prime Minister Margaret Thatcher has revealed that a "hit list" including the name of the Palestine Liberation Organization representative in London, had been found on the men arrested after the shooting of the Israeli ambassador to Britain.

If the head of the PLO office here was among the targets, then the attackers would presumably not have enjoyed broad Palestinian support, as Israel has asserted.

Accordingly, Mrs. Thatcher's statement Sunday night, which came after a similar statement by the UN Security Council Saturday by Sir Anthony Parsons, Britain's delegate to the United Nations, cast doubt on Israel's justification for its military strikes against Palestinian strongholds in Lebanon.

Mrs. Thatcher said she was convinced that the shooting Thursday night of the Israeli ambassador, Shlomo Argov, was not the reason for the Israeli attack on Palestinian positions in Lebanon.

"I do not believe it was in retaliation," she said in a BBC interview. "They may have made the at-

tack on Ambassador Argov the occasion of the new hostilities in the Middle East, but I do not believe it was the cause."

Three Arabs, two Jordanian-born students and an Israeli merchant, were formally charged Sunday in the attack on Mr. Argov, who remained critically wounded but in stable condition. Neither Mrs. Thatcher nor Scotland Yard

would provide further details on the motives or backgrounds of the suspects. An Iranian student was to appear in court on visa charges.

Middle East experts said after Mrs. Thatcher's comments that the assassins could have been members of a Palestinian splinter group. At least one renegade, headed by Abu Nidal, has vowed to kill the PLO leader, Yasser Arafat.

British officials appear to have disclosed the discovery of the hit list at least partly to defuse any suggestion that insufficient British security was even indirectly the cause of the new fighting in the Middle East.

Mr. Argov, 52, a career diplomat who was praised by Mrs. Thatcher as a "very, very distinguished person," was shot Friday as he left a dinner at the Dorchester Hotel in London's Mayfair section.

After the disclosure of the hit list by Sir Anthony, Yacov Keinan, the press counselor at the Israeli Embassy in London, issued a statement contending that it was still not known who was responsible for the shooting.

Throughout Friday and Saturday, Israeli officials report, no word of warning came from President Reagan, who is attending a summit meeting at Versailles, France. They said that a letter from Mr. Reagan was delivered by messenger to Mr. Begin at 7 a.m. Sunday Jerusalem time, which was after the decision had been made to launch the invasion.

The president reportedly sent the message from Versailles about six hours earlier. An Israeli official said the U.S. Embassy had tried to reach Mr. Begin during the night with the letter but that the prime minister had been unavailable.

The delay had created the impression in government circles here that the United States would demand the Israeli action after the attempt on the life of Mr. Argov and the Palestinian shelling. How important this was in the decision to invade was unclear, but Israeli troops rolled through the lines of the United Nations peacekeeping force in southern Lebanon at about 11 a.m.

Israel's stated, short-term aim is to crush the PLO militarily and to drive its weapons beyond the range of northern Israel, not to engage Syria in a battle that could quickly escalate into a wider war.

Through a devastating assault on the PLO in southern Lebanon, Israel hopes to set the stage for a diminished Syrian role in the country and possibly broader control of Lebanese territory by Lebanese Christian forces friendly to Israel.

In the first three days of fighting, Syrian aircraft have stayed away from Israeli planes making bombing runs. If that pattern con-

## Crises Seen Pointing Up Weakness of U.S. Policy

By Joseph Fitchett

International Herald Tribune

PARIS — President Reagan's tour in Europe, designed to demonstrate his statesmanship, risks being marred by the wars in Lebanon and the Falkland Islands, both of which are embarrassing signs of the Reagan administration's inability to manage allies including Israel, Britain and even Argentina, diplomats in several European capitals said Monday.

The Reagan administration generally got cautious praise from European participants at the Versailles summit for showing a new degree of open-mindedness on long-term issues facing the alliance.

"But it was a surreal experience to be at Versailles and watch the impotence of the United States and its main allies to get a grip on the explosive immediate crises," a French official said.

The same sense of alarm was reflected Monday in French and West German press commentaries.

Aside from the immediate indignity inflicted on Mr. Reagan by Israel's move into Lebanon during the Versailles summit, several European officials pointed out, the blowup in the Middle East dramatized a long-standing philosophical divergence between the United States and most of its European allies.

"We have consistently maintained that the Reagan administration tended to overconcentrate on East-West issues, to be obsessed with the Soviet threat, and to ignore the local conflicts that actually represent a more immediate threat to world stability," a West German foreign policy adviser said. He added that there was no Soviet role in either the Lebanese or Falkland crises.

Particularly in the Middle East, European governments have criticized the Reagan administration's emphasis on building an anti-Soviet strategic bloc of moderate Arab countries instead of pressing Israel to seek a negotiated settlement with the Palestine Liberation Organization.

At the same time, European diplomats expressed some sympathy for the Reagan administration's predicament. "It's a sign of our times that even the superpowers or a combination of powers cannot control the outbreak of local conflicts," a French diplomat said.

But a West German source added, "The crises in the Middle East and the South Atlantic are reminders of why the superpowers need a stable relationship, to be able to

contain these so-called brush fire wars."

A recurrent theme in European comments, however, was what several called a tendency by the Reagan administration to support dangerous policies on the part of strong U.S. allies.

Israel's move into Lebanon is a prime example for the Europeans of the way in which Israel, while dependent on the United States in many respects, manages to defy U.S. calls for military restraint.

What worries Britain, a British official said, is the long-run impact of an Israeli victory in southern Lebanon. Even if Israeli troops quickly eliminated the PLO presence in the area bordering Israel, the victory would only complicate negotiations, by making the Palestinian guerrillas political hostages of Syria's hard-line regime, he said.

Equally challenging for the Reagan administration is the problem of salvaging a settlement between Britain and Argentina after the British withdrawal from the Falklands.

The West German, French and Italian governments hope that the United States can muster the diplomatic weight to bring its two allies, Britain and Argentina, to a compromise.

Intervening in the currency markets is certainly not the only thing we are seeking, but clearly it is a priority interest, particularly regarding the dollar," a senior French government official said Monday, adding that "the study is a first step in that direction."

"Open Mind"

Speaking to a small group of reporters at a breakfast meeting Monday, U.S. Treasury Secretary Donald T. Regan said he would not prejudge the results of the study. "I am keeping a definite open mind, and I am not kidding on that," Mr. Regan said.

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Speaking in guarded terms at a news conference Sunday, Chancellor Helmut Schmidt of West Germany said that he viewed the agreement as covering intervention to smooth out only what he termed "volatile up and down" of specific currencies. He said that Bonn would not use its currency reserves to stabilize a foreign currency against basic trends.

Yet in an apparent reference to the emerging study, he told German newsmen Sunday evening that he thought that the United States had moved toward the European position of seeking greater and more coordinated intervention.

Echoing the views of other European leaders, Mr. Schmidt added that the results of the study "will have to be seen in practice."

The preparatory work, directed by a senior French official, will be presented to the IMF-World Bank meetings in Toronto next September. The study on intervention itself could begin thereafter and take as long as a year to complete, officials said.

The dollar advanced strongly early Monday on European foreign exchange markets but retreated slightly in thin afternoon trading. In London, the dollar closed up 2.5 pence against the Deutsche mark over Friday's closing rate. Dealers said the strength was a result more of midweek tension than of news from Versailles. [Story, Page 17.]

## Shellings by PLO Resulted In Consensus for Invasion

(Continued from Page 1)

Party, declared: "We believe it is the duty of Israel to do whatever is necessary to stop these attacks upon the population and the life in the state of Israel. It is surely a matter of self-defense. I do not believe that Israel has any territorial ambitions as far as Lebanon is concerned, nor is Israel interested, or should be interested, in any war with Syria."

Syria looms as the chief uncertainty in the operation. The question is whether Syria will stand by passively or attack the Israeli forces.

The possibility of Syrian intervention also worries the United States, which had urged Mr. Begin vigorously in the past to refrain from an invasion but was slow to do so this time.

Throughout Friday and Saturday, Israeli officials report, no word of warning came from President Reagan, who is attending a summit meeting at Versailles, France. They said that a letter from Mr. Reagan was delivered by messenger to Mr. Begin at 7 a.m. Sunday Jerusalem time, which was after the decision had been made to launch the invasion.

The president reportedly sent the message from Versailles about six hours earlier. An Israeli official said the U.S. Embassy had tried to reach Mr. Begin during the night with the letter but that the prime minister had been unavailable.

The delay had created the impression in government circles here that the United States would demand the Israeli action after the attempt on the life of Mr. Argov and the Palestinian shelling. How important this was in the decision to invade was unclear, but Israeli troops rolled through the lines of the United Nations peacekeeping force in southern Lebanon at about 11 a.m.

Israel's stated, short-term aim is to crush the PLO militarily and to drive its weapons beyond the range of northern Israel, not to engage Syria in a battle that could quickly escalate into a wider war.

Through a devastating assault on the PLO in southern Lebanon, Israel hopes to set the stage for a diminished Syrian role in the country and possibly broader control of Lebanese territory by Lebanese Christian forces friendly to Israel.

In the first three days of fighting, Syrian aircraft have stayed away from Israeli planes making bombing runs. If that pattern con-

tinues, the Israeli problems are expected to be minimal.

Syria, however, has a strong military force, rebuilt extensively since the 1973 war. It includes 3,700 tanks, compared with 1,500 to 1,600 in 1973; 500 fighter planes, compared with 350 in 1973; 80 anti-aircraft missile batteries, compared with 34 in 1973; and 12 Soviet ground-to-ground missile launchers that they did not have in the last war.

Officials say Israel does not want to occupy Lebanese territory for a long period.

Defense Minister Ariel Sharon, who has been pressing for this operation for months, has spoken of driving the PLO into Jordan, which he regards as a logical site for a Palestinian state. Mr. Begin, however, disagrees with that objective, and it is not likely to be pursued.

The ability to complete the attack quickly depends on whether Syria engages the Israelis. Zeev Schiff, the Israeli military correspondent of the daily newspaper Ha'aretz, warned in a column last month that "it is possible to win on the battlefield there, but sink into a bog from which it will be rather hard to extricate ourselves."

Mr. Sharon's objective, he wrote, "seems to be a complete annihilation of the PLO's military and political infrastructure so that they won't be able to recover in that country."

"Add to that, the creation of a situation in which a new Lebanese government will come about in a way that may be defined as legitimate, a government that will come to terms of peace with Israel," Mr. Schiff said, adding that "this calls for a banishment of the Syrian Army from Lebanon, or at least from most of it, and maybe setting up in Beirut" the Christian leader Bashir Gemayel and his forces.

"All this, the tactician in Sharon knows, must be done at the greatest speed, for our time is running out," he said. "Syrian intervention will slow the pace of events and lengthen Israel's timetable."

It would also run the risk of some Soviet involvement, since Moscow has a treaty of friendship and cooperation with Syria.

Israeli officials also expect other political costs, including some strains with Egypt and Western Europe. But these have now been deemed a minor price to pay for what the Begin government hopes will be a decisive blow against the PLO.

## Finance Aides Plan Money Market Study

## Summit Nations Look At Intervention Effect

By Axel Krause

International Herald Tribune

VERSAILLES, France — Finance ministers of the seven nations that participated in the Western economic summit have agreed in their own meetings at Versailles to launch a major study of the usefulness of government intervention in currency markets.

The study, which senior government officials have already begun to prepare, will be conducted under the auspices of the International Monetary Fund. It will focus on the currencies of the United States, Japan, West Germany, Britain and France — the currencies that make up the basket known as IMF special drawing rights.

The agreement is attracting attention because some of the West European governments represented at Versailles still hope that it could move the United States to modify its noninterventionist policy, officials of summit nations said.

Intervening in the currency markets is certainly not the only thing we are seeking, but clearly it is a priority interest, particularly regarding the dollar," a senior French government official said Monday, adding that "the study is a first step in that direction."

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Rising Dollar Hurt UN Aid Program

GENEVA — The rising dollar cost the UN Development Program \$75 million last year and the program may face even greater strain this year, UNDP administrator Bradford Morse said Monday.

Donor countries made pledges worth \$740 million at exchange rates current early last year, but their contributions in their own currencies were worth only \$663 million at the end of the year, he said.

Mr. Morse, in Geneva for a meeting of the UNDP governing council, said that despite the bleak financial outlook, he was still optimistic it could finish its 1982-1986 program. "I've spent a lot of time running around with a tin cup in hand," he said, adding that he found more support in national parliaments for the UN Development Program than he had expected. But he said the dollar rate could have a worse effect this year than last.

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## Timely Maneuvers, Third Parties Help Argentina Skirt EEC Boycott

By Margot Hornblower  
Washington Post Service

BUENOS AIRES — Javier I. Gamboa, head of Alpagatas, one of Argentina's largest privately owned conglomerates, says he does not worry too much about the European Economic Community's trade embargo. He used to sell fish blocks to France and West Germany. Now, seven weeks into the EEC boycott, he says he still does.

"We triangulate through a friendly country," Mr. Gamboa said. "It costs us more, but we keep doing business with Europe."

Triangulation, or the routing of goods through a third country, is one of the ways Argentine traders have found to thwart the sanctions declared by the EEC after Argentina invaded the Falkland Islands.

As an instrument of diplomacy, the trade embargo failed at the start to bring Argentina and Britain closer to a negotiated settlement. As a test case of economic warfare, it is proving to be largely symbolic, according to businessmen and government officials in Argentina.

In early April, when rumors of possible sanctions began to circulate, telex lines between Argentina and Europe were jammed with last-minute contract agreements.

"The entire fruit crop was sold in two days," said an economist with First National Bank of Boston in Buenos Aires.

When the embargo took effect in mid-April, Argentine companies and trade officials began a major effort to expand into new markets. Iran bought a million tons of grain. Large quantities of meat were sold to Egypt, Iraq and Algeria. Mr. Gamboa, who once sold denim and corduroys to Britain,

now sells them to Mexico and Spain.

"It's a hiccup," said Archibald B. Norman, editor of the Review of the River Plate, a financial weekly. He scoffed at British reports that the embargo was costing Argentina \$40 million a week.

The sanctions, which are the toughest imposed by the EEC in its 25-year history, could begin to hurt once contracts expire in the next one to six months. However, the defection of Italy and Ireland last month considerably weakened the effect of the extension of the sanctions by the other eight Common Market nations.

Argentina normally sells more than \$2 billion in goods, or 21 percent of its annual exports, to EEC countries. Most of this is agricultural products.

A counterembargo imposed by Argentina on EEC imports has caused little disruption because contracts were signed before it took effect. Moreover, Argentina has drastically cut imports to conserve foreign exchange.

"Not Very Much Damage"

"Don't believe what you read in the papers," said Economy Minister Roberto Alemann. "For the time being the sanctions have caused some damage, but not very much. We lost \$21 million a month, half of that for meat, when the British suspended all shipments, even ones that were contracted for, contrary to all the rules of international commerce. But the other countries are not preventing the sale of contracted goods."

Despite reports that foreign banks are rolling over Argentina's loan payments, Mr. Alemann denied that the embargo was making

it more difficult for Argentina to meet payments on its \$35 billion foreign debt.

Some businessmen in Argentina speculate that if U.S. banks had cut off credit to Argentina as British banks did, Argentina would have had to pull out of the Falklands quickly. U.S. banks hold \$9 billion of Argentina's foreign debt.

When the United States sided with Britain, it adopted a few symbolic sanctions, such as cutting off future Expon-Import Bank loans and commodity credits, which Argentina did not use anyway.

Luis Barmue, president of the Meat Exporters Association, said that, before the trade embargo, "no product left the port without 'Made in Argentina' stamped on the container. Now they don't require the label. Why should we complicate life? This way someone in Venezuela can buy meat and re-export it to France or Britain."

Until the sanctions were imposed, about 40 percent of Argentina's beef went to EEC countries, and about a third of that went to Britain and a third to West Germany. The corned beef that British soldiers are eating in the Falklands came from Argentina.

Now exporters are selling to Middle Eastern and African countries, but the value per ton is far less. "They want quantity, not quality," Mr. Barmue complained.

However, because of European contracts frantically negotiated days before the embargo took effect, 90 percent of May's supplies and 70 percent of June's supplies are sold, Mr. Barmue said. July, August and September, Argentina's winter months, are a slow period anyway, he added.

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## Cuba Is Trying to Exploit Falklands Conflict

By Alan Riding  
New York Times Service

HAVANA — Heightened by evidence that the Falklands conflict has already damaged Washington's relations with Latin America, Cuba is now trying to use the crisis to end its political isolation from much of the region.

In the last two months, Havana has emerged as one of the strongest supporters of Argentina, with which it had tense relations before the dispute. And it took the lead in mobilizing sympathy for Argentina at a meeting of Third World nations protesting nonalignment that ended here Sunday.

Cuban officials have also argued that, despite their political differences, Latin American countries — with Cuba among them — have been drawn together as never before by the issue. Fidel Castro, the Cuban leader, said last week that the Falklands had stirred "the most nationalist Latin Americanist sentiments that I've ever known."

Further, Cuban officials believe that Washington's decision to support Britain in the crisis has damaged the entire concept of an inter-American system linking the United States and Latin America and has weakened the Inter-American Treaty of Mutual Assistance, a pact usually invoked only to combat Communist threats in the region.

"Whatever happens, things will never be the same again," a senior Cuban official said. "The United States said this treaty wasn't applicable against Britain, but the next time Washington tries to use it, Latin America won't follow."

Cuba's foreign minister, Isidoro Malmerca Peoli, told delegates at the nonaligned meeting here that both the treaty and the Monroe Doctrine were now awaiting "a deus ex machina."

Foreign diplomats said Havana's decision to exploit the rift between Washington and Latin America also reflected its conclusion that recent secret contacts with Reagan administration officials offered little hope for improvement in U.S.-Cuban relations.

"Cuba has nothing to lose and a lot to win," a well-placed Western diplomat said. "The talks with the Americans were going nowhere. This was a chance that Fidel could not pass over."

Regional analysts recalled that, having re-established ties with much of Latin America in the mid-1970s, Cuba's relations with numerous countries, notably Argentina, Venezuela, Peru, Colombia, and Costa Rica, had again deteriorated over the last two years.

With the Reagan administration campaigning strongly against supposed Cuban involvement with Central America's revolutionary movements, much of Latin America also seemed happy to push Havana back into the cold. Only Mexico, Nicaragua, Grenada and, occasionally, Panama, were willing to be counted among Cuba's friends in the region.

But, seeing Latin America's anger and frustration over the Falklands directed even more against the United States than Britain, Cuba has now jumped at the opportunity to pull closer to the rest of Latin America, starting with such countries as Peru and Venezuela that have adopted similarly strong positions in the crisis.

"Nothing dramatic has happened yet," a Cuban official conceded. "In both cases, our relations are still at the level of chargé d'affaires rather than ambassadors. But this whole business is going to have very profound consequences."

Given Argentina's recent record of repression against suspected leftist militants, some Cuban officials conceded a certain embarrassment in finding themselves now supporting the Buenos Aires junta, although they fell back on the argument that the Falklands is a cause supported by the entire Argentine people.

But they also quickly pointed out that the crisis had also brought them positive results, specifically the withdrawal of Argentine military advisers from El Salvador and Guatemala, where they were providing counterinsurgency training to local armies, and from Honduras, where they were helping armed bands of anti-Sandinista Nicaraguan exiles.

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## Argentina Deals Gingerly With U.K. Reporters

By Richard J. Meislin  
New York Times Service

BUENOS AIRES — The question and the answer were entirely British.

Did the Argentines believe, asked Neil Wallis of the conservative Daily Star of London, that a British Vulcan bomber forced down in Brazil was on its way to Stanley on the Falkland Islands?

The answer, given in Spanish, was entirely Argentine and remarkably patient.

The islands in question, explained Capt. Enrique de León, the military command's foreign press liaison officer, are called the Malvinas and since April 2 the capital has been called Puerto Argentino. So the bomber could not have been on its way to either the Falklands or Stanley, since these places do not exist.

The nature of neither the question nor the answer was uncommon. The British reporters cover-

ing their country's war with Argentina from Buenos Aires often find themselves in a personal battle between journalistic objectivity and patriotism. And the Argentines, while uncompromising in their nationalism, have gone to great lengths to be cordial to most of the enemy's invading press corps.

3 Remain in Prison

Nevertheless, there have been problems. The most pressing has been the continuing imprisonment of three British journalists detained on spying charges during a visit to southern Argentina.

While they and their editors have insisted their mission was purely journalistic, Simon Winchester of The Sunday Times and Ian Mather and Tony Prime of The Observer have been held without bail for nearly two months in a cell in Ushuaia, Argentina's southernmost city, despite repeated efforts to obtain their release.

The editors of their papers announced Sunday the formation of an international committee that will try to bring pressure for their quick release. But British journalists here say there are increasing indications that the government may be holding them to exchange for an Argentine war prisoner.

Capt. Alfredo Astiz, Capt. Astiz, whom the French and Swedish governments have sought unsuccessfully to question about the disappearances of three of their citizens in the late 1970s, was captured when the British retook South Georgia Island late in April.

In a statement here, the British editors said that "judicial sources in Argentina have made it known that whatever course the judicial process takes the three journalists face the prospect of at least another six months behind bars before even an indication of what lies ahead may emerge."

The 35 or so members of the British press corps remaining here are, like their international colleagues, free to travel in Buenos Aires and the northern part of the country, and on the whole their contacts with the government have been polite.

While the Argentine government has expelled four reporters since the beginning of the war, none has been British. And while several of the Britons are approaching the end of their 90-day visas — and some have even passed it — the government has made no effort yet to enforce the limit.

"If you make some reference to the fact that you're British," said Isabel Hilton of The Sunday Times, one of the few Spanish-speaking members of the British press corps, "everyone is terribly anxious to insist on their level of culture and civilization and how it's nothing personal. The everyday people, though, get a little more intense somehow, a little more emotional."

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## Khorramshahr in Ruins After Defeat of Iraqis

Quick Victory Shows Iran's Army Is Now Well-Led, Efficient Fighting Force

By Henry Tanner

**KHORRAMSHAHR, Iran** — This once-bustling port city, which Iranian forces recaptured from the Iraqis just over two weeks ago, is a wasteland of rubble, minefields and abandoned trenches. Virtually no building has escaped destruction. There is no life in the ruins.

In October, 1980, the Iraqis won control of the main part of the city in house-to-house fighting. They lost it, and possibly the war with Iran, in the 48 hours of May 23 and 24, even though they had turned it into a fortress with a warren of defensive positions and underground passages connecting raised houses beneath the protection of the debris of the upper floors.

The unexpectedly rapid Iranian victory at Khorramshahr, which once had 200,000 residents, confirmed what Western military experts in the region had been saying for several months: The Iranian Army, which had been decimated and thrown into confusion after the fall of Shah Mohammed Reza Pahlavi, had re-emerged as a well-led, technically efficient fighting force.

The army, moreover, has found a way to combine its technical skills with the unorthodox fighting methods of the unreformed fanatical members of the Islamic Revolutionary Guards, who hurl themselves at enemy tanks firing at close range with armor-piercing, rocket-propelled grenades.

"The war has been good for us," said Col. Hussein Shebni, an officer who accompanied journalists on a visit to Khorramshahr.

### Costa Rica to Tighten Controls on Refugees

The Associated Press

**SAN JOSE, Costa Rica** — The Costa Rican government has announced it will strengthen controls over the estimated 220,000 foreigners living in this Central American country long known for liberal refugee policies.

Public Security Minister Angel Edmundo Solano said Saturday that an estimated 60,000 illegal aliens will be subject to deportation if they refuse to apply for necessary documents. He added, however, that Costa Rica will continue to recognize refugees from political violence.

### Florida-Denmark Flights

The Associated Press

**Miami** — Air Florida will begin weekly flights between Miami and Copenhagen on Oct. 1.

"When the Iraqis attacked, we practically did not exist as an army, but they forced us to reorganize and fight."

A Revolutionary Guard in partial military dress also briefed visitors. His style was in stark contrast to the clipped reports of the professionals. He told in almost lyrical detail how "the brothers" helped and protected by God, ran up to the Iraqi lines and overwhelmed the enemy without regard for their own losses.

The army and the Revolutionary Guards have a joint command, an officer said. He said the professionals worked out the strategy and drew up the plans and then discussed them with the leaders of the Revolutionary Guards. In the end, he said, it was the leaders of the Revolutionary Guards — not the army officers — who gave orders to the guard members.

The victory of Khorramshahr has boosted the morale of both the professional soldiers and the guards and has heightened their hopes that the government in Tehran will let them strike at the Iraqis across the border. "We cannot stop here," one of the young guards said.

"To Karbala without a passport," shouted a group of Revolutionary Guards at the foreign journalists. Karbala, a holy shrine for all



Shiite Moslems, is about 80 miles (128 kilometers) south of Baghdad, the Iraqi capital, and the Shiites of Iran complain that even in times of peace it was difficult for them to go there to worship.

## Songwriter Leon Rene Dies at 80

United Press International

**LOS ANGELES** — Leon Rene, 80, composer of the 1939 song "When the Swallows Come Back to Capistrano," died May 30 of heart disease.

Each March 19, St. Joseph's Day, Mr. Rene was the honored guest at the San Juan Capistrano mission in California, joining scores awaiting the return of the swallows from South America. He also wrote Louis Armstrong's theme song, "When It's Sleepytime Down South," and in collaboration with Clarence Muse and his older brother, Otis, "Gloria," "Someone's Rocking My Dreamboat," and "I Left My Sugar in Salt Lake City."

### Harold von Schmidt

**NEW YORK (NYT)** — Harold von Schmidt, 86, a painter whose magazine illustrations helped spur a renewed interest in Western art, died last Thursday at his home in Westport, Conn.

An illustrator who worked in oil, Mr. von Schmidt did most of his work for the old Saturday Evening Post, giving visible form to such fiction characters as Tug Boat Annie and Captain Horatio Hornblower.

While these and such commercial work as a series of historical paintings for the John Hancock Insurance Co. would have been

enough to put him in the first rank of American illustrators, it was his paintings of Western scenes for the Post and other publications that had the most influence on his younger colleagues.

### Roger Bonvin

**SION, Switzerland (AP)** — Roger Bonvin, 74, a two-time president of the Swiss confederation, died Saturday.

An engineer and avid mountain climber, Mr. Bonvin was elected president of the seven-member federal Cabinet in 1966 and 1972. Executive authority is exercised by the Cabinet, whose members are elected by the national assembly. The assembly chooses a Cab-

net president and vice president annually.

**Richard Boeth**  
**DALLAS (UPI)** — Richard Boeth, 49, a former writer for Time and Newsweek, died Saturday. Mr. Boeth, whose name was pronounced "Booth," won several awards, including the New York Newspaper Guild's Page One Award for national reporting for a 1977 Newsweek cover story entitled "Is America Turning Right?"

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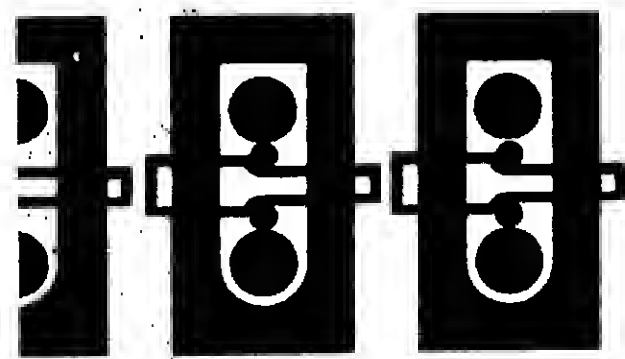
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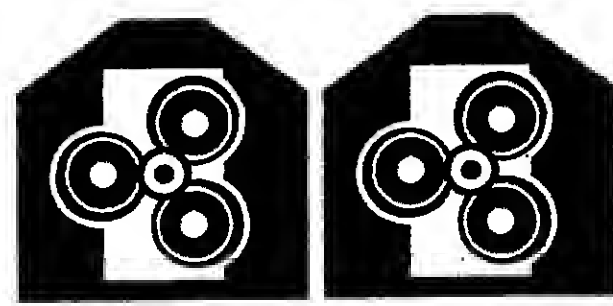
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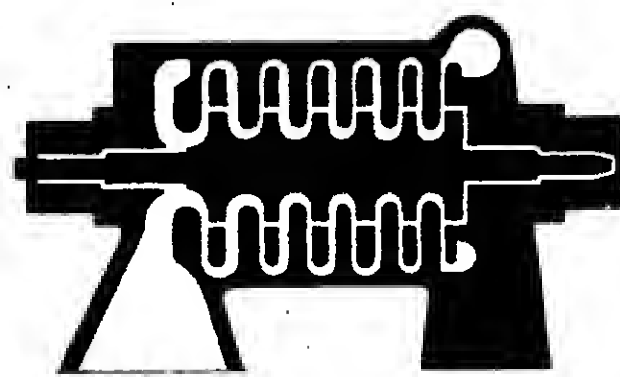
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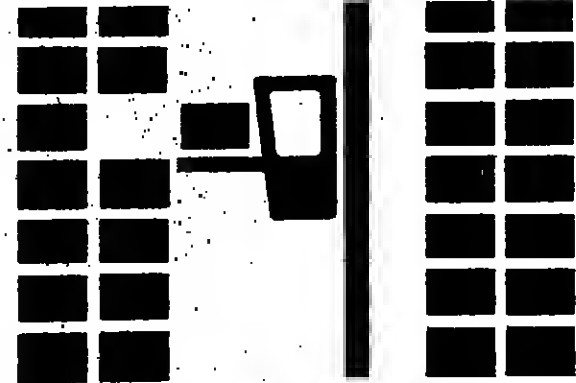
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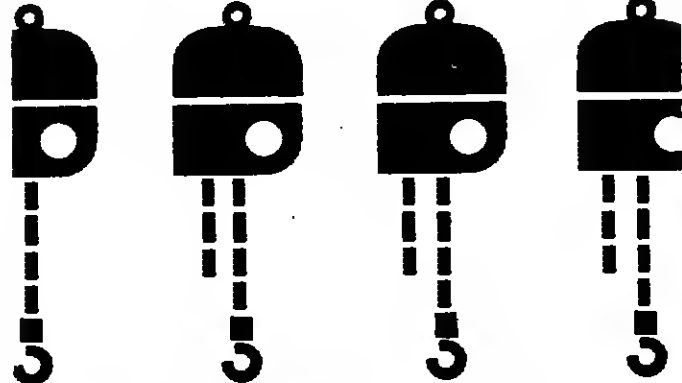
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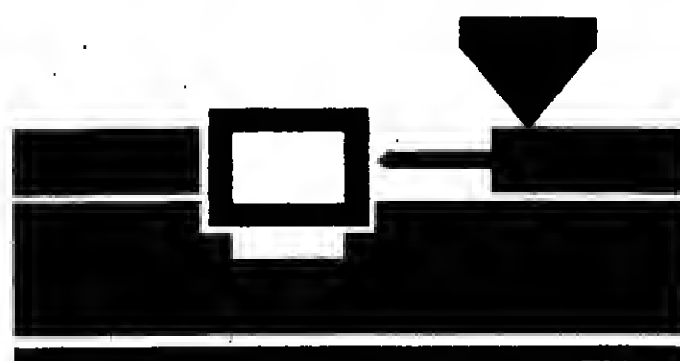
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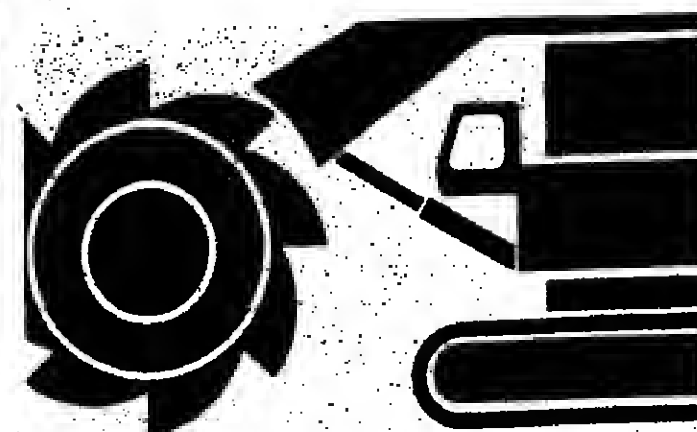
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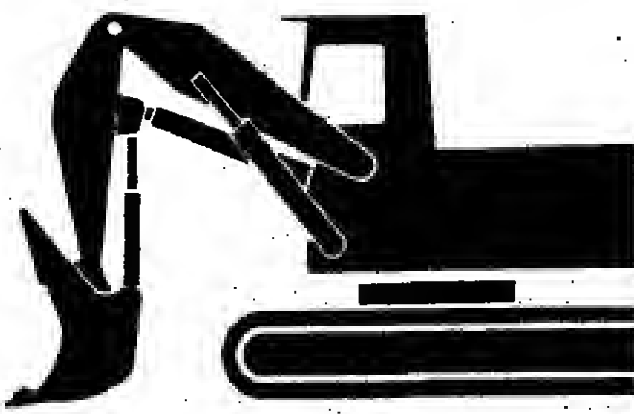
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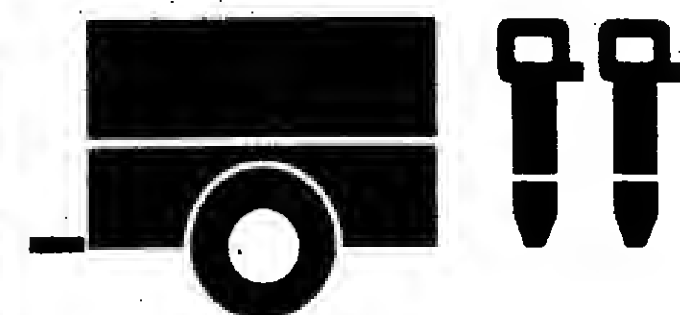
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# Herald Tribune

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## Israel Enters Lebanon

### An Achilles' Heel Policing Needed

There is a tragic inevitability to the breakdown of the year-old, American-arranged cease-fire in southern Lebanon. Palestinians know — the world knows — that the Israelis have an Achilles' heel: They cannot abide the murder of their people. That gives an extraordinary power to the lone gunman. Someone setting out to kill Israelis can be reasonably sure that the response will be not long in coming and that it will entail an impressive display of state power, with all the tangled military and political consequences that such displays entail.

Last Thursday in London an Arab assailant fired a bullet through the head of the Israeli ambassador. This created a certain embarrassment for the PLO. It claims to represent all Palestinians, but it tends to be selective about accepting responsibility for acts of Palestinian violence. In this instance it denied responsibility, saying cynically that the shooting "served Israeli and not Palestinian interests." In Beirut, meanwhile, the PLO's number-two official, Salah Khalaf, speaking after Israeli planes had retaliated by bombing guerrilla positions, dropped all pretense of civilized demeanor and declared: "We will hit civilian targets in northern Israel." Heavy shelling of border settlements followed, and then came Israel's strike north for the stated purpose of ensuring that Palestinian units will no longer be able to fire long-range artillery shells into Israel.

Unquestionably, the Israelis have a right to protect their people. The British have just gone 8,000 miles to assert the same principle. Many observers, including the Reagan administration, had understood that Israel could not be expected to let its border towns be indiscriminately shelled, and the United Nations border forces had been unable to still the PLO's guns. The hope must be that as few civilians as possible are touched by the violence and that the Syrians do not let themselves be drawn into what Israel regards as a limited operation against the PLO.

Increasingly, the Lebanese are coming to the position that the undisciplined and undisciplined Palestinian presence is the root cause of Lebanon's agony. The purpose of diplomacy now should be to get the Israeli Army out of Lebanon, and the PLO's forces and the Syrian Army, too.

In time, one hopes, a new cease-fire will be installed, and then there will be an argument over which of poor Lebanon's numerous foreign occupiers should depart. The core problem — that of Israeli-Palestinian coexistence — will remain. Among both Israelis and Palestinians now, the leadership and the dominant popular mood seem to give priority to military confrontation over political compromise. At least as long as that holds, they will both continue to suffer the bitter fruits of their terrible, unnecessary feud.

THE WASHINGTON POST.

The scene of battle changes, but the nature of the Israeli-Arab conflict does not. So long as it is denied secure boundaries, Israel will pursue a chimeric security in an ever wider arc of territory, buying time and breathing space by means that inflict new wounds of Arab grievance. Israel can be condemned, and perhaps restrained, but that will only nourish its anguish and defiance.

Peace is the issue, not Lebanon. There is no Lebanon or plausible plan to revive it. A world that tolerated Lebanon's disintegration, its occupation by Syria and its collapse into quasi-feudal baronies speaks nonsense when it pleads for Lebanese "sovereignty" or "territorial integrity."

Israel lived in notable harmony with a properly functioning Lebanon until 1975. When it was dismembered, Israel staked out a 25-mile-deep zone to the Litani River as vital to the security of its northern towns and villages. When Syria failed to prevent the PLO from amassing rocket and artillery power in that zone, Israel itself took on the job. Its means have varied, its purpose has not: to move the PLO weapons out of range and, periodically, to deliver a more lasting blow to the Palestinians' growing military capacity.

Also not at issue is Palestinian terrorism in faraway places. The foul attack on Israel's Ambassador to Britain was only a pretext for a long-planned strike into Lebanon. What delayed it for many months was not the lack of provocation, or American dissuasion, but disagreement among Israeli leaders about whether the growing PLO arsenal was worth the casualties of a ground assault.

And now that Israel has decided to pay the price, the issue is no longer restoration of the American-sponsored cease-fire of last July. Israel will not soon vacate the region — as it did after 90 days in 1978 — if no other force appears to clear it of PLO rockets that sail easily over the heads of a few United Nations observers.

Israel is probably wrong to believe that it can long cripple PLO forces so energetically supplied by Libya, the Soviet Union and other patrons. It has surely been wrong to confuse deep security concerns, to the north and east, with an ideological drive to absorb the West Bank and Gaza and their hostile populations of 1.4 million Arabs. But it was never reasonable to expect Israel to leave the Galilee hostage to an unfettered PLO army within rocket range.

A much more elaborate cease-fire and policing mechanism will now have to be found if Israel is to retreat again. And it will have to be found before the pressures for retaliation build in Syria. Israel struck at a time of unusual strain and division in the Arab world. But in this unending war, every gain of time or territory has created its own new imperatives. It is a tragic spiral.

THE NEW YORK TIMES.

## Other Editorial Opinion

### 'Too Impossible an Item'

[Israel] is relying on Arab disunity in emphasizing its determination to solve the Palestinian problem by arms and by military occupation. And by "solve" it simply means in this context "prolong for several years."

The likeliest outcome at present is the expansion of Israel to occupy all Lebanon south of the Litani River and possibly territory farther to the north. When that happens, a threat to Israel's security will, for the time being, have been reduced. But Israel will then be four times an occupying power.

The sad fact is that peace with the Palestinians seems to Israel too impossible an item to put on the agenda.

— From The Guardian (London).

Syria's decision to oppose the Israeli aggression was reinforced by the engagement of Syrian forces [Sunday] in a duel with Israelis.

— From Radio Damascus.

It is now clear that the United States had condoned Israeli policies of aggression in the Middle East.

— From Tishrin (Damascus).

### The United States and Britain

The security and prosperity of Britain in the modern world depend in considerable measure upon the relationship that the United States has with Western Europe in general and with [Britain] in particular. In one sense it is unfortunate that [President Reagan] should be coming here immediately after the fiasco of the American vote at the United Nations. In another sense it is good that he should be, because the middle between Mr. Haig and Mrs. Kirkpatrick has brought into the open British anxieties over the attitude of the United States that have existed in greater or lesser degree since the Argentine invasion — and it is healthy that between countries with as long a record of deep friendship as Britain and the United States anxieties should be discussed openly.

## June 8: From Our Pages of 75 and 50 Years Ago

### 1907: Denouncing Use of Heroin

PARIS — Heroin is more and more frequently used as a substitute for morphine, and there are now almost as many heroinomaniacs as morphinomaniacs. This is to some extent the fault of doctors, who have used heroin instead of morphine for producing sleep and soothing pain, asserting that it is less dangerous than the latter. Experience has proved that it is nothing of the kind. Dr. Paul Duhem has demonstrated that one acquires the habit more quickly and when it is acquired its suppression is fraught with danger, leading to grave syncope that are not remedied by an injection of heroin. Dr. Duhem regards heroin as absolutely condemned.

### 1932: Celebrating the Sidewalks

PARIS — Paris is celebrating the 150th anniversary of the sidewalks that were first laid down in the rue de l'Odéon — marking not only the beginning of more comfortable living here, but also in cities throughout Europe that followed its example. Prior to June, 1782, Paris was hardly the city of light that it now is. According to the chronicles of the times, it was a city of sewers, the sewers being the public streets. It was due mainly to the filthy streets that Louis XIV decided to transfer his court to Versailles, where the air was pure. Now that pigs no longer wallow in the streets, Parisians can sit at their favorite sidewalk café table and sing in complete comfort.

## Two Views: • The Onslaughts Are No Solution

By Anthony Lewis

BOSTON — In launching its large-scale invasion of Lebanon, Israel rejected urgent pleas from among others its principal supporter, the United States. Prime Minister Begin and his colleagues did so because they believed the move into Lebanon offered compelling opportunities.

A minimum objective of the invasion, code-named Operation Peace for Galilee, is to free that northern part of Israel from PLO rockets and shells. The Israeli ambassador to the United States, Moshe Arens, put it that the attack had "a clear-cut single mission: pushing the PLO out of artillery range of northern Israel."

A broader aim is to knock out the PLO infrastructure in Lebanon. The idea of an invasion has

been discussed to Israel for months. A major argument was the hope of destroying the PLO's military power once and for all.

Finally, the invasion could fit into the more ambitious strategy of Defense Minister Ariel Sharon. He believes military action in Lebanon could have decisive political effects, forcing the PLO to move into Jordan and give up hope of a state based on the West Bank, which would be the end of Israel. One looks at the invasion in those terms — coldly, as a matter of military and political advantage — was it a wise move for Israel? I think not. The means and ends are skewed from reality. The costs may be dangerously high.

To protect the Galilee from rockets and shells is essential. But the best method of doing so is the one that U.S. envoy Philip Habib negotiated last July: a cease-fire between Israel and the PLO. In terms of keeping northern Israel free of artillery attacks, that arrangement has been successful.

For nine months not a rocket or shell was fired by PLO gunners into Israel. When Israeli planes bombed Lebanon on April 21 for the first time since the truce started, the PLO did not respond. After another bombing on May 9, there was a limited response: about 100 rockets that Israel said caused no damage or casualties. Then, after the massive Israeli bombing last

week, the PLO responded with full-scale barrages.

In short, the cease-fire kept the Galilee safe until Israel bombed Lebanon. The argument that aggressive new military action was needed to keep the rockets out turns reality upside-down.

The idea that a single powerful military blow can destroy such a group as the PLO defies much experience. Nationalist guerrilla movements in Kenya and Algeria took terrible blows from the superior forces opposing them, suffering enormous casualties, but they survived, their determination if anything heightened.

Recent Middle East history points in the same direction. The

PLO has been repeatedly bloodied, but after each defeat it has acquired more sophisticated weapons and become more dangerous. There is no reason to think that the Soviet Union would refrain now from rearming a battered PLO. One of the obvious risks in Israel's attempt to crush the Palestinians in this campaign is that it will draw the Soviets more deeply into the Middle East in the long run — or sooner, if there is conflict between Israel and Syria.

Sharon's vision is the most dangerous fantasy of all. No one familiar with the thinking of middle-class Palestinians can believe they would willingly accept Jordan as a homeland. The Sharon plan would mean incorporating 800,000 West Bank Arabs into Israel against their will, or putting pressures on them to move to Jordan.

The fact of the invasion, whatever its intention, threatens the fragile beginnings of understanding between Israel and the Arab world. The relationship with Egypt will be strained. Those Palestinians who have been open to peace with Israel will be alienated. All this views the Israeli invasion, as I said, in terms only of military and political advantage. But there are human factors, too.

Israeli spokesmen said the heavy bombing of Lebanon was in retaliation for the shooting of Ambassador to Britain Shlomo Argov, which they attributed to the PLO. The terrorists may well have come from some extremist faction that has killed not only other Israeli diplomats but PLO representatives as well. But assume they acted for the PLO itself. Would that justify air raids that have killed hundreds of people, many of them children and women, and that have been connected with terrorism?

The attack on Ambassador Argov was horrible. After Munich and Maalot, to mention only two examples, Israel must not and will not take terrorist outrages in silence. But to respond with such unselective and disproportionate violence cannot serve the spirit of Israel, or its true security.

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## • No Comprehensive Settlement Is Possible

By Aaron Rosenbaum

WASHINGTON — A tempest of rhetoric is proclaiming both the death of the Camp David peace process and a pressing need for a comprehensive approach to replace it. Yet a comprehensive Arab-Israeli settlement, for reasons outside American and Israeli control, is not possible at this time. If Washington fails to base policy on this reality, it will endanger the partial peace already achieved in pursuit of a peace that cannot be.

The Egyptian-Israeli agreement — as its simplest level an exchanging of war — stands on its own because both countries want and need it. It remains a partial peace not because of shortcomings in the Camp David accord but because Syria and the PLO, and probably Jordan and Saudi Arabia, do not want or need reconciliation with Israel badly enough.

The Syrian government, embattled and unpopular, needs continued antagonism with Israel to legitimize itself at home and abroad. At best, the PLO is revanchist and irredentist; its moderate talk for Western consumption is just that — dissimulation. Opportunities for genuine movement still set to motion the classic, violent dynamic of intra-Palestinian politics: Guzman enforce their rule.

King Hussein of Jordan is obsessed with regaining control of East Jerusalem. As with the Syrians and the PLO, the issue has become a canon of ideology and political legitimacy.

The Saudis have difficulty abiding the idea of a permanent Jewish state. Their rapid mod-

ernization has not translated into a weakening of their religious antipathy toward Israel.

No U.S. diplomacy can alter these facts, nor the reality that Arab enmity is reinforced when the Arab states operate as a group.

U.S. policy must also recognize that the school of thought that argues for the need to quickly include Syria, Jordan, Saudi Arabia and the PLO in the peace process is faulty. The conflicts that beset the region — between Iraq and Iran, Syria and Iraq, Saudi Arabia and Southern Yemen, Morocco and Algeria — owe nothing to Israel or the absence of a Palestinian state. Termination of the Arab-Israeli dispute, while a noble ideal, would not diminish another major source of instability: growing international rebellion against corrupt, repressive or feudal regimes. Nor do Arab-Israeli relations affect the price or production of oil.

It has been said that the Camp David accords have two components — the peace treaty and the autonomy agreement — and that without expansion of the first and implementation of the second, the entire process will collapse. This is wrong on two counts.

First, although not without dissent, Egypt acts on the belief that a separate peace, if necessary, is preferable to fighting Arab wars to the last Egyptian. The alternative would be politically and economically ruinous.

Second, the Camp David process really has a

third element, institutionalized by Anwar Sadat and essential to achievement of the other two: Egypt's acceptance of the need to recognize Israel, negotiate with it face-to-face without preconditions and deal with it as an equal. This defines the single standard of Arab moderation, and it is in this reality that America has its greatest political investment.

It is Arab rejectionism, not Menachem Begin's philosophy, that is the obstacle to broader peace. Instead of pondering ways to "deliver" Israel, America must place the onus for lack of further progress solely upon Arab states that refuse to sit down and negotiate. A U.S. policy that fails to do this will put control of the peace process into the hands of those who oppose it. It will also send a signal to Arab radicals and the Soviet Union — and Egypt — that America is inconstant and ambivalent, and liable to abandon what has so far been achieved.

If the United States makes it unambiguous that despite its long-term desires, it recognizes the polarization of today's Middle East and, with no better alternative, will stand by the Egyptian-Israeli peace and indefinite continuation of autonomy talks, it will eventually elicit from sobered rejectionist Arabs the self-interested moderation that a genuine, comprehensive settlement requires.

The writer heads a consulting firm that specializes in international affairs. He contributed this comment to The New York Times.

## What Has Versailles Done About the Slump? Not Much

By Leonard Silk

PARIS — What did the Versailles conference do to end the worst slump of the postwar period? And how did it change the outlook for a decade of stagnation with high unemployment, high interest rates and sluggish growth, which so many business executives, economists and unemployed workers fear?

The short answer seems to be, "Not much." Unfortunately this international economic conference never really came to grips with those questions.

President François Mitterrand stressed jobs and offered a kind of socialist supply-side economics, putting his emphasis on the use of high technology to provide the impetus for stronger growth. But where Mitterrand favored government intervention to push the new industrial revolution along, most of the others believed that this should be left to the private sector.

To the credit of all the leaders here, they did recognize that it would be extremely difficult for any one country to pursue expansionary policies if others were pursuing

programs of austerity. In fact, expansionist France is being forced back to austerity by the damage the franc has sustained from the effort at expansion to one country.

Now the seven hope to advance, and simultaneously hold inflation down, by working more closely together. They also mean to work with the International Monetary Fund, subjecting themselves to the surveillance of the fund over their national economies. This is already required by Article 4 of the fund's articles of agreement. The conference participants now mean to deal with the IMF not just one-on-one but as a group.

However, the United States stressed at Versailles that it would retain autonomy over any actions it would take, whether or not they were recommended by its partners or the IMF. Other countries are just as unwilling to surrender their sovereignty to the fund or to each other.

Yet Treasury Secretary Donald T. Re-

gan stressed that this summit was the beginning of a new "process" of cooperation that could have long-lasting effects in bringing the economies closer together.

The details of how this will be brought about remain to be worked out, but the Reagan administration may indeed have taken a step that could lead to common actions on the economic front.

The Reagan administration — and future American governments — could find itself being educated by its foreign partners, where it prefers to fight off its domestic critics for political reasons.

How far Washington has gone to agreeing to work for a more stable exchange rate system is moot. As Undersecretary of the Treasury Beryl W. Sprinkel, the administration's main operating officer of international monetary policy, emphasized here, all the Reagan administration has done is say it would engage in a study of the role of intervention in the foreign

exchange markets — a study he indicated would take at least a year. He said his own data indicate that intervention to exchange markets would do more harm than good.

But Regan put a strongly positive interpretation upon the international monetary measures to which the United States had agreed. "You recall," he told a news conference, "that it's been over 10 years since the United States went off the gold standard and since the last of the Bretton Woods agreements for fixed currencies were abandoned. This is the first step back toward some kind of rates that will have a reasonable adjustment to each other."

Regan said there were many ways to do this, and no one way had been selected. "But," he added, "this is the first time we got started on a joint monetary policy."

The Versailles conference walked up to some big problems, and mostly walked around them, anxiously. The conference did no harm that one can discover. But the question remains: Did it do any good?

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## Young West Germans Are Wary of America

By David Kramer and Glenn Yago

STONY BROOK, N.Y. — Ronald Reagan's visit to West Germany this week like a presidential visit, is intended to demonstrate the U.S. commitment to that country's security. But many West Germans today are deeply ambivalent about America.

Despite anti-Reagan demonstrations, many West German analysts, drawing on public opinion polls, see no problem of anti-Americanism — merely disagreement with the Reagan administration. A deeper look, however, indicates that there is such a problem.

Our analysis of opinion surveys and the press and our interviews with West Berlin senators show that more and more West Germans, particularly those aged under 40, feel that their country's interests diverge from America's. The younger the people, the less they support the Atlantic alliance, the more popular are proposals for independent European policy and for West Germany to become a world power that does not subordinate its interests to America's.

Although 50.2 percent of West Germans perceive a possible Soviet threat, only 39.6 percent of those born after World War II fear the Russians. Generational perceptions of U.S. foreign policy differ greatly. Among younger West Germans, doubts about America's leadership ability and suspicion that America is promoting a new cold war are about 10 percent above the national average.

While most West Germans feel that foreign policy is motivated by interest in preserving freedom and democracy, the postwar generation takes a more cynical view that America uses foreign policy to compensate for failures in the international economic marketplace.

For the first time since 1945, many in West Germany do not equate the American military presence with their own security. The rapid deterioration of support for the NATO decision to deploy intermediate-range nuclear missiles while negotiating about them is greatest among younger people, who are convinced that the allies' defense policy limits nuclear confrontation to Europe. (Nationally, on average 53 percent support the decision, while only 40 percent of younger West Germans do.)

The postwar generation thinks that American missiles are more of a threat than protection. While 43 percent of the whole population

thinks missiles promote security, only 31 percent of younger West Germans believe so.

The image of a United States beset by economic decline, limited social opportunities and excessive materialism, and given to interventionism in the Western Hemisphere, has increased rapidly in recent years, especially among young adults. America's domestic problems are seen by 38 percent of the postwar generation as barriers to its claim to world leadership.

Anti-Americanism takes the form of emotional criticism of the Reagan administration, specific Reagan policies and America as a metaphor. It accompanies a perception that West German and U.S. interests diverge so radically that a military alliance has become unstable or even dangerous.

Something is decidedly amiss in relations, and a change in the parliamentary political alignment in Bonn would not automatically alter this situation. The undeniably nationalistic elements of anti-American sentiment in today's West German politics might then take economically and politically threatening forms.

Cabinet policies that radically diverge from deeply held beliefs cannot be practiced indefinitely in a democratic West Germany. Anti-alliance sentiment represents minority thinking, but the minority is significant and growing.

The question is whether pro-Americans can maintain public confidence in an alliance with the United States, and this depends both on what policies Washington pursues and how it presents them to the world.

Of course, anti-Americanism and problems of U.S.-West German relations predate the Reagan administration. There have been deeper forces at work, including America's economic decline, the eastward tilt of West German trade and energy interests, and Washington's knee-jerk reactions in foreign policy. Unless both sides strive to reconcile divergences, "34 years of West German-U.S. friendship" could become a threadbare platitude — or worse.

David Kramer is professor of social policy at the School of Social Work in West Berlin. Glenn Yago is assistant professor of sociology at the State University of New York at Stony Brook. They contributed this comment to The New York Times.

## For a Security Partnership

By Willy Brandt

The writer was chancellor of West Germany from 1969 to 1974. He is chairman of the Social Democratic Party and president of the Socialist International.

BONN — President Reagan's announcement that the United States and the Soviet Union will begin strategic arms negotiations at the end of the month confirms that, despite significant differences, both world powers are at last prepared to enter into a comprehensive dialogue about security and arms control.

Many of us in Europe now hope that this progress in the military sphere can be followed by steps to re-establish political trust. These efforts toward improved relations are of course of great significance for the Atlantic alliance as its leading representatives gather for this week's summit meeting in Bonn.

The global political situation continues to provide reasons for concern. This makes it still more important that on the central issue of East-West relations — the threat of nuclear destruction — both superpowers have shown some signs of easing.

Progress toward a comprehensive dialogue could breathe new hope into the negotiations on intermediate-range missiles that began in Geneva at the end of 1981. Considerable difficulties still have to be overcome, but this new step toward understanding brings an agreement on intermediate-range weapons into the realm of the possible. American friends can hardly overestimate the importance this issue has for Europeans.

Any real progress in security would have decisive implications for cooperation within the Atlantic alliance. The trans-Atlantic tensions that have emerged in recent months derive in large part from the fact that the United States has seemed one-sidedly to emphasize a policy of military strength, while

its European partners, although recognizing that there have been painful setbacks, remain committed to strategic arms control.

Many Europeans have deplored the United States' demand for political good conduct by the Soviet Union as a condition for arms control negotiations, pointing out that at an end to the arms race is equally important for both sides. Moreover, from the European perspective any quest for military superiority or efforts to bankrupt the other side by means of escalating defense expenditures are unrealistic and dangerous. In this era of worldwide economic crisis, there is also concern that significant increases in military spending will inevitably have heavy social and economic costs.

The somewhat different peace movements in Europe and the United States have voiced increasing fear of the superpower competition in fostering the development of nuclear arms. There is mounting opposition to the increasingly larger turns in the spiral of defense spending, and also considerable doubt — not only among young, possibly inexperienced people — about the foundations of Western security policy.

Such fears cannot be taken lightly by democracies such as the United States and West Germany, for a security policy that profoundly divides our peoples creates significantly greater risks than could ever result from renouncing this or that weapons project.

Much will depend — for all of us, both to the United States and in Europe — upon whether we can convince the citizens of our countries of our will and of our ability to maintain peace. We must be

ready to examine without prejudice competent proposals for changes in the military strategies of the alliance.

It will be still more important, however, that arms control no longer be considered an isolated task, independent of political cooperation between East and West. The effort to achieve détente will survive the 1980s only if the defense buildup is finally brought under control. But we will be able to end the arms race only if we can re-establish a minimum of trust between East and West.

It is for this reason that many important European officials still endorse the Salt-2 treaty. It is also why so much is expected of the discussions that Secretary of State Alexander Haig and Foreign Minister Gromyko expect to hold soon at the United Nations.

But more than anything else a summit meeting between President Reagan and President Brezhnev would hold out the possibility that the superpowers and their respective allies, despite their dissimilar ideologies and conflicting interests, could join to a partnership in search of international security.

This would do more than almost anything else to strengthen the tie of friendship and cooperation between Europe and America, eliminating with one blow many of the irritations and petty misunderstandings that have burdened the alliance in recent months.

It is for this reason that I, along with many of my friends in West Germany and elsewhere in Europe, hope for an American policy free of illusion, oriented toward the future and aiming at a global partnership of security.

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## Herald Tribune

John Hay Whitney (1904-1982)

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## U.S. Shifts Focus of Asia Strategy to Southeast

By Richard Halloran  
New York Times Service

WASHINGTON — The Reagan administration has fashioned a new military strategy for Asia that emphasizes a shift in planning and forces from Northeast Asia to Southeast Asia and the Indian Ocean, according to administration officials.

While no American forces are to be withdrawn from Japan or Korea now, the officials say, plans are being made to send U.S. Navy, Marine and Air Force units based to Japan and Okinawa to the Gulf area in the event of hostilities there.

Moreover, U.S. forces held in reserve, such as an Army division in Hawaii, and a Marine division in California, could be deployed to the Gulf rather than to Northeast Asia as reinforcements.

To carry out that strategy, officials say, the administration is insisting that Japan and South Korea increase their responsibilities for security in Northeast Asia. The administration plans especially to turn the U.S. relationship with Japan into an active military partnership.

The administration is looking to Southeast Asian nations to counter

what is seen as Vietnamese expansion and to support U.S. efforts to project military power into the Indian Ocean and the oil-producing regions around the Gulf.

The administration plans to strengthen military ties with China, Taiwan, however, is not included in the administration's plans.

### Loose Coalition Sought

The officials say the administration is trying to weave a loose coalition of Asian nations by dealing with each directly instead of trying to mold them into a formal group.

The evolving strategy, the officials say, culminated in Defense Secretary Caspar W. Weinberger's trip to Japan, South Korea and the Philippines in March, when he tried to persuade those nations to support it.

About the same time, Mr. Weinberger approved the Defense Department's classified strategic "guidance" for the next five years, in which the policy is outlined more explicitly than it is in those portions made public. It places East Asia behind Western Europe and Southwest Asia in priority for U.S. military resources.

"Our foremost objective in East Asia and the Pacific is, in conjunc-

tion with our regional friends and allies, to prevent the Soviet Union and Vietnam from expanding their influence in the region," the guidance says.

Officials said the biggest danger in Asia is the Soviet naval threat to U.S. sea and air lines of communication that run from the West Coast through Hawaii, Guam and the Philippines to Diego Garcia and the American fleet in the Indian Ocean. Vietnam adds to that threat, they said, by providing naval, air and communications bases to the Soviet Union.

To permit U.S. forces to shift their attention southward, the defense guidance says, the United States must "transform our relationship with Japan into an active defense partnership in which Japan significantly increases its defense capabilities."

The defense guidance says the United States will continue its long-standing policy of being willing to assist South Korea in the event of hostilities and calls for improvements in intelligence, command, firepower and anti-tank weapons for U.S. forces there.

In Southeast Asia, the guidance says, the United States must "foster the strength and cohesion of

the Association of Southeast Asian Nations to counter Vietnamese expansionism while developing further the capacity of member countries to support the projection of U.S. power from the Western Pacific to the Indian Ocean and Gulf. Members of that association are the Philippines, Thailand, Malaysia, Singapore and Indonesia.

The strategic guidance says the United States must "maintain the strategic value of our relationship with the People's Republic of China by supporting measured increases in its military capability."

The plan says that "encouragement and, if possible, logistic support will be provided to China's military initiatives that would fix Soviet ground, air and naval forces in the U.S.S.R.'s Far Eastern territories."

In the Pacific, the document says, "first priority will be to defend Alaska, Hawaii and connecting lines of communications with the continental United States."

Next, the guidance directs, "naval and air forces will control lines of communications" to the Gulf and will "control the East and South China seas to interdict Soviet resupply or reinforcement of naval forces deployed in the area."

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Hundreds of houses were destroyed after heavy rains caused flash floods in South Sumatra.

### 225 Dead and Missing in Flash Floods in South Sumatra

United Press International

JAKARTA — The worst floods to hit South Sumatra in this century claimed 225 dead and missing and left about 3,000 people homeless, a government official said on Monday.

"We have found 178 bodies but we have little hope of finding any survivor among the 47

people still reported missing," said Provincial Governor Sainan Sagiman in the first official report on last week's disaster. "The death toll is likely to stand at 225."

Mr. Sagiman flew to Jakarta last week to ask for government relief for about 3,000 people left homeless by the floods and for thousands of farmers who lost

their rice fields and small plantations.

The floods swept away at least 600 houses and 10 bridges along the Ogan and Enim rivers. An official damage estimate has not yet been made public.

Heavy rains pouring over South Sumatra caused the flash floods, with waters rising by several feet in a few minutes.

## Bank Official Gave Out Passbooks In South Korea for Funds He Kept

By Henry Scott Stokes  
New York Times Service

TOKYO — In a further twist to a billion-dollar financial scandal involving relations by marriage of President Chun Doo Hwan, a leading South Korean bank has announced details of a \$12-million swindle by a bank manager who committed suicide, Seoul newspapers reported.

The Choheung Bank, one of South Korea's five large commercial banks, said that Kim Sang Hui, deputy manager of a Seoul branch, issued bank passbooks to friends and business acquaintances for a total of \$12 million in return for deposits he accepted privately at higher interest rates than the bank offered, the Korea Times said Monday.

Mr. Kim, who hanged himself in April when his transactions were about to be exposed, is said to have been a close friend of Chang Yong Ja, a relative by marriage of Mr. Chun's wife, Mrs. Chang is a Seoul socialite and the principal figure in a \$974-million scandal involving the Choheung Bank of the Commercial Bank of Korea and other leading institutions in Seoul.

29 Indicted  
Mrs. Chang is one of 29 bankers, businessmen and moneylenders who were indicted last week in what prosecutors called the biggest financial scandal in Korean history. The suspects were charged with offenses ranging from fraud to taking bribes, and included Kim

Jae Su, who was fired as president of the Choheung Bank and arrested.

The scandal attracted vast attention in South Korea and rocked the government of Mr. Chun. Half the 22-member Cabinet was changed at a stroke. A new foreign minister, Lee Bum Suk, was appointed, and the top command of the ruling Democratic Justice Party and the Agency for National Security Planning — the former Korean Central Intelligence Agency — were changed.

### Linked by Rumor

The government announced Sunday that Hahn Pyong Choon, a former ambassador to Washington, will take over as chief secretary to Mr. Chun at the presidential mansion, the Blue House. But real power continues to be held by a small group of former army intelligence aides on Mr. Chun's staff, led by Ho Hwa Pyung, who was a former colonel in intelligence before Mr. Chun, then an army general, seized power under martial law in May, 1980.

Meanwhile, Mr. Kim, who was a deputy manager at the busy Myeongdong branch of the Choheung Bank in Seoul, is linked by rumor with highly placed officials and others close to Mr. Chun. Otherwise, according to the stock market rumors, he could not have had the freedom to hand out passbooks for millions of dollars.

Mr. Kim, who also ran the Wonjin group, a ramified empire of a

trading firm, a shipbuilding yard and a gymnasium, was also reputed to be a source of funds for charity. He worked with physically and mentally handicapped people, the press said.

His illegal transactions at the bank were usually with people linked to his Wonjin interests, but he is understood to have been involved also in real-estate deals in Seoul with women investors. These people worked the money market as backers to Mrs. Chang and her third husband, a former deputy intelligence chief named Lee Chul Hui.

The scandal is important because the amounts of money involved in even Mr. Kim's comparatively modest transactions were vast, at least by the standards of Mrs. Chang. The Choheung Bank said that its net loss was more than \$8 million, the Korea Times reported. Most of the funds he distributed so lavishly could not be recovered, the paper said.

The Choheung Bank originally said that it lost slightly more than \$1.3 million after an inquiry by bank officials and by the Office of Bank Supervision and Examination, a government supervisory body for the banking industry. The sum was since multiplied five-fold but few here seemed surprised.

"Korean business is a whirlpool," said a foreign banker here versed in Seoul financial markets. "The constant ingredients are politicians, deals off the books and kickbacks."

## U.S. Veterans End Vietnam Talks With Ambivalent Feeling on Visit

By Colin Campbell  
New York Times Service

HO CHI MINH CITY — The six-day visit of a group of U.S. veterans of the Vietnam conflict has ended here, and the Americans left with a heightened awareness of the possibilities as well as the pitfalls of unofficial diplomacy.

They had come to talk with their former enemies about the fate of missing American soldiers, the chemical defoliant known as Agent Orange, the children of Vietnamese citizens and American servicemen, and the need, as they see it, for cultural exchanges.

Before they left Sunday, the veterans had conferred with Vietnamese officials both high and low.

Several of the veterans remained unsure about the accomplishments, if any, of their mission. Nor, despite Vietnam's release on May 29 of information on several American war dead, did they know where such visits might lead or what Vietnam hopes to gain.

Thomas A. Bird, the group's leader, said that the Vietnamese, before finally opening an envelope containing a typed press release about the American war dead, asked the veterans several times what they could do for Vietnam in return for cooperation on missing Americans.

### Unclear Voice

It was not even clear for whom the veterans could speak. All of them said they represent their organization, Vietnam Veterans of America, which claims 8,000 to 10,000 members.

However, Mr. Bird and a number of his colleagues said that on some points the veterans were also telling Vietnam what the U.S. government would say if it were in their place.

According to U.S. diplomatic and military announcements, the trip was strictly unofficial, following a more modest but similar journey last December.

The veterans were briefed on U.S. policy toward Vietnam. U.S. officials wished the group luck in their talks about missing Americans and the children of American servicemen.

However, the U.S. maintains that — given Vietnam's occupation of Cambodia — no Vietnamese performing artist will be issued an American visa, and they warned

that the veterans were in grave danger of being used for propaganda.

This danger centered particularly on U.S. officials said, on Agent Orange, which has gained importance in Vietnam's public statements since the United States began accusing Vietnam and the Soviet Union of waging chemical warfare in Indochina and Afghanistan.

### Agent Orange Proposal

The group's lawyer said a proposal for an international scientific commission to study the possible effects of Agent Orange in Vietnam had been submitted in draft to both the White House and the State Department. He also said the U.S. suggested changes, and these had been incorporated. The Vietnamese said they would study the plan.

On the matter of missing Americans, Mr. Bird said the veterans' plans had been discussed in detail with Defense Department officials.

One indication of U.S. interest in the trip, according to members of the group, was that they had dealt with John H. Holdridge, assistant secretary of state for East Asia and the Pacific. Later, John Gunther Dean, U.S. ambassador to Thailand, met with them twice in Bangkok.

Mr. Holdridge was said to have told Mr. Bird and Joseph Papp, the New York theatrical producer who accompanied the veterans, that the government's official position is sympathetic, cautious and firmly against cultural exchanges.

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## ARTS/LEISURE

## 19th-Century Japan Views the West

By Christine Chapman

International Herald Tribune

YOKOHAMA, Japan — "Japan, and the West in Japanese Prints, International Exchange Exhibition," came home this spring to the Kanagawa Prefectural Museum after a successful show at the Walters Art Gallery in Baltimore.

The exhibition features woodblock prints depicting foreigners who lived in Yokohama during the late Edo and early Meiji periods, 1860-83. The prints, which were given to the Kanagawa museum by a Yokohama businessman.

"We want to exchange art with museums abroad," said Yokota, whose hardcover English-language catalog of the exhibition includes 70 pages of color plates with a lively history of Yokohama's ukiyo-e, or prints and paintings from the "everyday life" movement that flourished in Japan from the 17th to the 19th century.

"There are many ukiyo-e in Europe and America," Yokota said, "but not many which show Westerners and Japanese together. Westerners are the subjects in the prints and, as drawn by Japanese, they appear stranger than they think they are."

The strangest-looking of all is Commodore Matthew Perry, dreaded by the Japanese for his forced entry into Edo Bay in 1853 and 1854 to open trade. Some artists drew him as vicious as Her- block drew Richard Nixon.

These ukiyo-e are the popular art of Edo Japan's common peo-

ple, done by reputable artists, produced in mass printings of 200, sold cheaply and distributed widely, like modern newspapers.

The news was the strange customs and behavior of the foreigners who surged into the new international port on what is now Tokyo Bay: consular staff members, missionaries, merchants, adventurers, and their wives and children. Direct contact with foreigners was prohibited by the government, so the artists used imagination, hearsay, and photographs and illustrations from foreign newspapers.

Some artists were bold enough to make direct observations. The result is a vivid mix of portraiture, action scenes, women's fashions and group activities, foreigners dining together or parading

through Yokohama on their authorized Sunday stroll.

Some of the artists, such as Gontsei Sadahide and Isao Yoshikazu, had the gift of immediacy. Sadahide excelled in "drawings of foreigners from life" — Russians breeding sheep, an American lady playing an accordion — Yoshikazu did action scenes of foreign children playing on stilts, foreigners amusing themselves with music, dance and drink. Americans baking bread.

The first Yokohama ukiyo-e, published between 1860 and 1865, focused on people in the second period, 1868-72, the foreigners became diminished figures set in scenes of houses and churches and Japan's first railway station. In 1866, Yokohama was devastated by the "port shop fire," which began in a foreign meat store. As new buildings were built afterward, the artists shifted their attention from the odd outsiders to their intricate architecture.

"Japan and the West in Japanese Prints" begins with several traditional ukiyo-e. These are charming prints of old Japan, but it is the vigor of the Western intrusion that grabs the viewers' eyes.



Americans baking bread, by Isao Yoshikazu (1861).

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## The Onion and Its Magic Potency

"CONTRITIS cepis," advised the medieval School of Salerno, "loco denudata capillis saepe fricans." Nothing looks so learned as a line of Latin, unless it is a grain of Greek, but the profound thought here presented in the august language of Augustus is that, if you rub a bald head with onion, it (the former) will sprout hair.

This is only one of the many virtues attributed to the onion. John Gerard, in his 16th-century "Herball," presented an impressive, but not complete, list of the powers claimed for the onion (not forgetting the bursical angle):

"The onions do bite, attenuate or make thin, and cause dryness; being boiled they do lose their sharpness, especially if the water be twice or thrice changed, and yet for all that they do not lose their attenuating qualities."

"The juice of the onions snuffed up into the nose, purgeth the head, and draweth forth raw humors."

"Stamp'd with Salt, Rue, and

## WAVERLEY ROOT

Honey... they are good against the biting of a mad Dog. "Rotted in the embers and applied, they ripen and break cold Apoplexies, Biles and such like."

"The juice of Onions mixed with the decoction of Pennyroyal, and anointed upon the goitric member with a feather, or a cloth wet therein, and applied, causeth the same very much."

"The juice anointed upon a pild or bald head in the sun, bringeth the haire again very speedily."

"The juice taketh away the heat of scalding with water or oil, as also burning with fire & gunpowder."

"Onions sliced and dipped in the juice of Sorrell, and given unto the sick of a tertian Ague to eat, takes away the fit in once or twice so taking them."

Hammurabi, king of Babylon, named the onion in a list of healing plants that he had carved enduringly in stone. The ancient Egyptians, Hebrews and Greeks paid tribute to the onion, and the Romans, characteristically, went overboard. Pliny claimed that it cured ulcers and dissolved piles, while onion juice mixed with fenel cured dropsy, with honey banished angina, with vinegar was a tonic, and with oil other adjunct than water could return speech to anyone suddenly stricken dumb.

The Middle Ages, the Renaissance, and even the last two centuries were enthusiastic about the onion as a medicine. Some doctors, like Ambroise Paré (1599-1690), the same French physician Gerard cited as "Ambrose Paré"), recommended it as an antidote for poisons, wrote Louis LaGriffe in "Le livre des épices, des condiments et des aromates," "while others, like Lemery, [Nicholas Lemery, French apothecary, 1645-1715], attributed to it a multiplicity of properties, 'appetite arousing, digestive, good against gallstones, dropsy, scurvy, worms, deafness and for the absorption of abscesses,' but it is especially as a diuretic that the onion has attracted the attention of doctors, following in the steps of Dioscorides and Plinius of Cremona, who declared that 'the onion is good for breaking up the phlegm in body fluids, opening the mouth of the veins and forcing out the urine' — and of Lieutaud (unknown both to me and my library) — who found that 'four onions steeped in white wine do more for the kidneys than the most energetic drugs.'"

Checking these sources and others, I find that the onion has been touted through the ages for ridding Abscesses, a head, relieving Albuminuria (the appearance of albumin in the urine); curing Anemia (Ray Tannahill says eating onions in excess may cause anemia) relieving the an-

guish of Angina; exercising a general Antiseptic function; combating Asthma; disinfecting animal Bites; maintaining the health of the Bladder; cleansing the Blood and lowering blood pressure; relieving Bronchitis; banishing Bruises; curing Carbuncles; absorbing Catarrh; ending Chills; curing Colic (bot Rosie Maurel says the opposite); removing Corns from the feet; and acting as a Counterirritant.

Furthermore, onions are said to be good for curing Deafness ("take ante eggs and onion juice, mix, and drop into the ear"); helping Diabetes (the glucoside of the onion lowers the proportion of sugar in the blood); aiding Digestion (by alleviating "intestinal discomfort," according to one politely worded modern herbal); by ending "flatulence," says Louis LaGriffe; bot Ray Tannahill, musing on words, and backed up by the School of Salerno, wrote that it was unfortunate that beans, cabbages and onions, "the three main vegetables of the Middle Ages, should have been among the most farfetched of all"; and curing Dropsy (it was reported in 1779 that one case was cured by applying raw onion pulp to the lower abdomen and the soles of the feet).

Not to mention calming Earache ("roast an onion and put in into the ear, as hot as it can be borne"); acting as a general Emollient serving as a cosmetic Face wash; dissolving Gallstones; beautifying the Hair, because of its sulphur content; imposing reason on Hangovers, when taken in onion soup; calming Headaches ("smear the brow with crushed onions"); staving off Heart trouble (by keeping the fat content of the blood low); reducing Inflammations; conquering Insomnia (Gerard thought this a disadvantage); aiding the Kidneys to function; acting as a Laxative; and banishing Obstructions in various

passages of the body (for instance, the blockage that produces milk leg).

Then let us not forget the claims for onions' forestalling Pericarditis, inflammation of the membrane surrounding the heart; absorbing Piles; warding off basal, Arabic for the Plague (Mahomet: "If you fear plague in a country, eat its onions after having drunk its water); curing Pleurisy; acting as an antidote to Poisons; reducing Prostate difficulties; eliminating Rashes; calming Rheumatic pains; promoting Scar formation; benefiting the skin, especially when it is chapped, cracked or scraped; suppressing the pain of insect Stings; reducing Swellings (including "white swellings," whatever that may have meant); relieving sore Throat; curing Ulcers; ending Whooping Cough; and expelling Worms. I find no references under the letters J, M, N, Q, T, V, X or Z.

## Potent Stimulant

It was inevitable that a vegetable credited with such potency, and cited as a stimulant, should be put down as an aphrodisiac, especially by the ancients, who sometimes seem to have thought about little else.

"Onions excited Venus," wrote Philippa Pullar in "Consuming Passions," without going into further detail except to say that they "increased seed and milk." Martial was brutal about it: "If your wife is old and your member exhausted," he advised, "eat onions in plenty."

Oriental lore, of course, did not neglect this aspect of the onion, and was indeed so explicit that I fear I must skip what "The Perfumed Garden," reports about the effect a diet of onions had on Abou el Heilouk.

In medieval times, onions were always one of the ingredients in the various imaginative recipes given for witches' broths.

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## Cousteau Begins 11-Month Expedition to Study Amazon

New York Times Service  
RIO DE JANEIRO — The French oceanographer Jacques Yves Cousteau has left Belém on an 11-month expedition to study Amazon animal and plant life.

The expedition, estimated to cost \$4 million and financed by television networks around the world, is to explore areas that have remained wilderness since Spanish and Portuguese conquerors settled coastal areas and fertile valleys and plains three centuries ago.

The major areas of mystery are in the Amazon River basin, where Cousteau and 40 Latin American scientists will use submarines, helicopters and Hovercraft to study the ecological relationship between the vast Amazon forest and the Atlantic Ocean.

"If we can bring back answers to what nature is without man, what it is with man and in what extent Indian tradition of nature exploitation has influenced it, then we may be able to provide better means to develop the region," the

71-year-old Cousteau said in a recent interview.

He said that, in return for the financial support, the television networks would receive copies of the film taken, while all the scientific results would belong to the Brazilian government.

On average the Amazon discharges into the Atlantic more than 52 million gallons of water per second. The river holds about one-fifth of the world's fresh water, and its outflow reaches 100 miles into the Atlantic.

At 3,900 miles it is the second longest river in the world, only 245 miles shorter than the Nile. But its discharge is four times greater than that of its nearest rival, the Congo, and 10 times greater than that of the Mississippi.

The Amazon basin has a network of rivers that are navigable for 16,000 miles. The total area of the basin is about 2.7 million square miles, more than twice the size of India, and only a little less than the land area of the continental United States.

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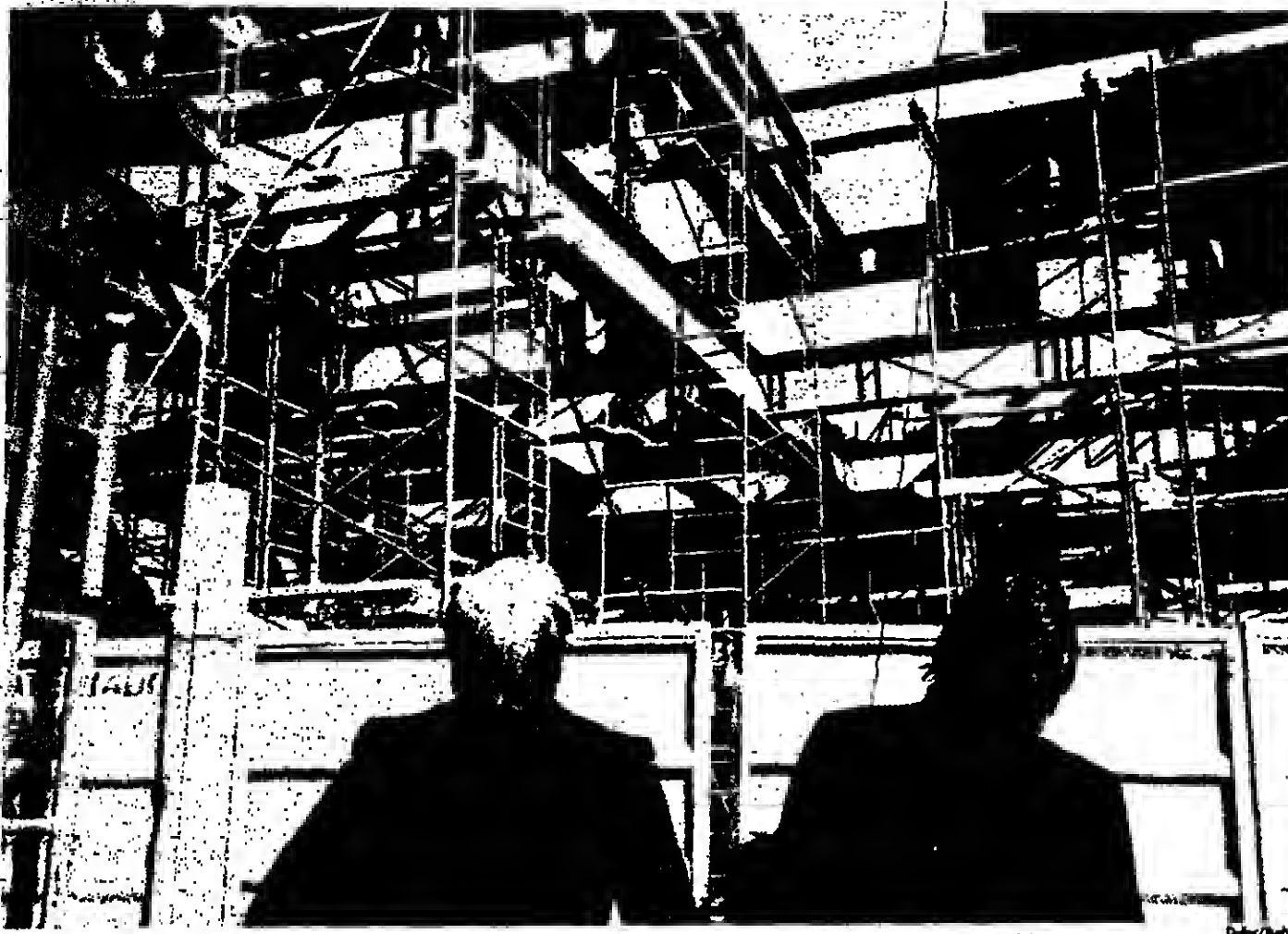
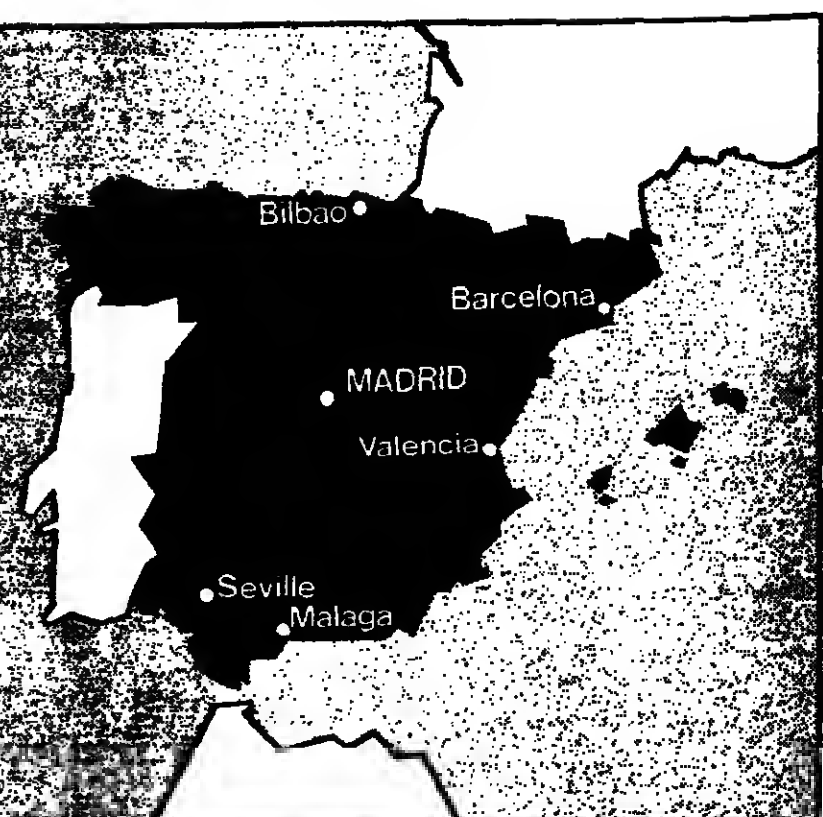
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# SPAIN

## THE ECONOMY



Watching the girders rise: A full report on the real estate industry appears inside.

### VITAL STATISTICS

Monetary Unit: Peseta. Currency units per U.S. dollar, average of daily figures, 1981: 171.7.

National population, 1981 census: 37.5 million; Number of inhabitants per square kilometer: 74; Net natural increase, (1980) 278,000. Population of major cities, 1970 census: Madrid, 3.5 million; Barcelona, 1.7 million; Valencia, 654,000; Seville, 548,000.

Civilian employment, third quarter 1981: 11 million; By sector (percentage): Agriculture 18.1; Industry, 35.3.

Production: Gross domestic product, 1980 (billion pesetas) 15,076; GDP per head, (1980 US\$) 5,648; Gross fixed investment: percent of GDP (1980) 19; per head (US\$) 1980 1,080; Gross domestic product at factor cost by origin, in 1980 (percentages): Agriculture 7; Industry and construction 36; Services 57.

The General Government: Public consumption, in 1980 (percentage of GDP), 11.3; Fixed investment in 1979 (percentage of gross fixed capital formation) 7.8; Fiscal revenue, in 1979 (percentage of GDP) 22.0; General government deficit, in 1979 (percentage of GDP) -1.8.

Source: The OECD

## EEC Issue Dominates Key Industry Sectors

By Vanya Walker-Leigh

MADRID — Nearly 8,000 Spanish firms in a dozen "crisis" sectors, employing more than 600,000 people and accounting for 28 percent of industrial production, are involved in a major effort to save jobs and improve competitiveness and financial strength before Spain's proposed entry into the European Economic Community begins to affect its economy.

Sectors involved include steel, textiles, shipbuilding, footwear and household appliances — industries that are also in trouble in many EEC countries. Considerable pressure is being applied on Spain in negotiations for EEC entry to reduce the capacity of some of these industries way below what the government considers acceptable, or politically feasible.

A decree-law of June 5, 1981, on measures for industrial reconversion set out general principles; this was followed by a series of detailed texts on individual sectors. In each case, lengthy negotiations inside sectoral commissions took place between representatives of employers, the two leading trade unions and the Ministry of Industry on the overall approach to each sector's problems. Not surprisingly, discussions on how to reduce overcapacity (estimated at about 70,000 jobs) were the toughest.

Enrique Aldama, undersecretary for industry at the ministry, explained, "We had to use costly means to arrive at agreements with the unions — stretching out the job reduction process by temporary suspensions, rotations, making special concessions on duration of unemployment pay, severance compensation, early

retirements, voluntary departures." He added: "But without reconversion, a good many companies, and many thousands of jobs, would have disappeared completely."

The cost to the state of the overall reconversion effort, spread over the next five years, will be nearly 600 billion pesetas.

Detailed measures for each company are discussed at company, and usually industrial federation, level with labor unions, "even though the unions wanted the government to be involved at this level," Mr. Aldama said. Plans for companies are then submitted to sectoral commissions for review and approval, but many remain to be worked out.

The most ambitious and difficult is probably the textiles plan. Apart from 10 capital- and technology-intensive companies manufacturing chemical fibers, employing 12,000 workers, only about 400 of the remaining 7,000 or so firms in the sector employ an average work force of more than 60. The 1981-1986 plan is intended to reduce the 420,000-person work force by 35,000 jobs and boost productivity by 60 percent and capacity by 29 percent; the share of machinery less than five years old is to go from 23 percent to at least 50 percent. Special aids will go to improving management techniques, designs and quality. Sixty firms have submitted plans to date.

The reconversion of the steel industry will be organized under three separate plans covering integrated steel, special steels and common steels, involving reductions of about 10,000 jobs in the total work force of 72,000.

The integrated steel plan adopted in 1981, (Continued on Page 10S)

## Inflation Trimmed, but Rate Of Unemployment Tops 13%

By Mark J. Karlaneky

MADRID — Juan Antonio Garcia Diaz, a 41-year-old former economics professor, has been one of the key government figures in the Spanish economy since democracy was re-established. He has held Cabinet posts since 1977, when he became minister of commerce and tourism. He is now second vice president and minister of economy and commerce.

Returning to Madrid after a meeting in Paris of economic ministers of the Organization for Economic Cooperation and Development, where he took a strong stand on the side of countries that place the fight against unemployment as a priority, he clarified the Spanish point of view: "I wouldn't say that we have decided to fight unemployment at the risk of inflation. We are not making this kind of choice. While we are proceeding well in the fight against inflation, unemployment is still rising."

In the last five years, inflation has been brought down to a more manageable rate but unemployment has soared to 13.5 percent, one of the highest rates in the OECD. Mr. Garcia Diaz feels that the government can now move effectively against unemployment without re-fueling inflation because of the National Employment Agreement (ANE) signed last year between the unions, the government and private enterprise.

"We have got a margin for a pro-employment policy without running a risk of inflation," he said. "The ANE holds wage demands down to a moderate increase. This agreement, at the end of this year, however, and Mr. Garcia Diaz says that he would only favor a renewal if all parties strongly pushed for it."

"I don't believe that we either could or should maintain a policy of decreasing real wages for the period ahead," he said, com-

menting on the fear of some businessmen that this policy was lowering consumption and demand for goods. "But we must try to avoid what happened in Spain from 1974 to 1980 when real wage and labor costs pushed inflation and narrowed profit margins. The vice president asserted that this trend had been reversing since 1981."

On restructuring industry for international competition, he conceded that "one of the results of this is unemployment. But another result is less unemployment even in the short term. Without this kind of restructuring, many of the enterprises we are now restructuring would go bankrupt. We are accepting a loss of employment to avoid a loss of the total employment of these firms."

Public Companies

Although the law that provides government aid to restructuring projects expires at the end of this year, Mr. Garcia Diaz believes that the process initiated by the decree will be self-perpetuating. This kind of process never ends. In 20 years, Spanish industry will be very different from what it is now."

His greatest concern is what he termed "the global situation of the public sector." Economic problems have forced ever increasing deficits in public spending. The deficit "is not so big if you compare it with other countries, but probably it is more difficult to finance than in other countries. We do not have the machinery to finance this kind of deficit and what worries me most is that the trend in public deficit spending will continue."

He said that the most dynamic and dangerous parts of the deficit were payments to non-solvent public companies such as the national railroad (RENFE), rapidly growing payments to municipalities and the social security unemployment benefits system. Unemployment (Continued on Page 14S)



Juan Antonio Garcia Diaz

## EEC Talks: Tone Is Fresh, Results Few

MADRID — Compared to the way he was in the opening days of the work year in September, Raimondo Bassols, the secretary of state for relations with the European Economic Community, seems like a new man. "The situation has completely changed," he said buoyantly.

Negotiations between the EEC and the Spanish government had been stalemated until this year. The Common Market has always accepted the idea of a democratic Spain joining its ranks and the idea has support in most sectors of the Spanish population, but the specific terms of incorporating a nation with a large population, an important industrial potential and enough farmland to increase the EEC's agricultural area by almost one-third have proven elusive.

In the last year, Brussels has for the first time agreed to open negotiations without preconditions on all sectors. Until then, the EEC had refused even to discuss some of the thorniest issues such as agriculture and fishing.

The new spirit in negotiations has so far helped to clear away some of the less problematic items but has produced few breakthroughs on the major obstacles. The only important consensus has been that the Spaniards, in return for an opening of negotiations, have agreed to establish a value-added tax (VAT) on the day of entrance into the Community; they had previously refused to do so.

## Export Volume Triples in 5 Years But Heavy Oil Import Bill Keeps Balance of Payments in Red

By Barbara Bell

MADRID — Spain's dynamic young director of exports, Juan Arenas, was getting handshakes and slaps on the back from businessmen passing his lunch table at one of the city's elegant restaurants recently.

The reason? The morning newspapers had reported that Spanish exports for the month of February were up 40 percent over those of January and 57.1 percent over those of February, 1981.

Mr. Arenas accepted the congratulations with obvious pleasure but later, in his office at the Ministry of Economy and Commerce, commented that the positive results were not really surprising.

"Spain has tripled the volume of its exports in five years," he said. "Five years ago, they amounted to \$7 billion and now — using figures for 1981 — they total \$21 billion."

Economic Difficulty

"We've had steady growth," he said. Not only were February's exports 40 percent higher than January's, but January's had already been 49 percent higher than December's.

During recent years of economic difficulty here and throughout the world, Spanish exports have sparked as a consistently bright point among other often gloomy economic indicators. A heavy volume of imports — especially of large quantities of oil — has kept the nation's trade balance in the red but the strength of the export market is viewed here as a promising sign for future overall improvement.

Spanish exports grew 26.5 percent in 1981 from 1980, the year immediately preceding that showed increases of 22.2 percent and 22 percent. The kind of products Spain exports and the regions and countries it sells them to have also changed in significant and sometimes surprising ways.

For example, while almost 50 percent of Spain's exports go to the countries of the European Economic Community, the growth of total exports to the EEC was relatively small last year, only 9.8 percent. That compares with far more rapid increases in exports to Communist-bloc countries and specifically with a growth rate of 74.6 percent in exports to the Soviet Union. Nevertheless, the Soviet Union, Poland, Romania and Yugoslavia received less than 3 percent of Spain's total exports for 1981.

A Prime Factor

One factor that may have contributed to the relative slowdown of Spanish exports to Europe is that the peseta has remained relatively firm in relation to European currencies while in areas where its exchange rate is based on the dollar, the Spanish currency depreciated strongly after a 1977 devaluation, making Spanish products cheaper to buy.

That devaluation is seen as a prime factor in a big jump last year in Spanish exports to the United States, up 59.5 percent, contrasting with a growth rate of only 5.9 percent the preceding year.

"In 1981," Mr. Arenas noted, "the U.S. received 6.7 percent of Spain's exports. But those were basically unsophisticated products: first, material from the iron and steel industry; secondly, shoes and other footwear; and thirdly, olives, wine and some chemicals."

Agricultural products such as olives, olive and vegetable oils and wine have decreased dramatically in importance in Spanish export statistics from years like 1962, when they accounted for 65 percent of the nation's exports. Now only 20 percent of Spain's exports are agricultural products and of those 18 percent go to Europe.

Spain's economic ties to Latin America, based on common traditions, language and, in many cases, a history of nations having helped

each other over bad times, have been of special importance in the light of that developmental change.

"The importance of Spain's exports to Latin America," Mr. Arenas explained, "is not so much quantitative — although they account for 18 percent of our total — as qualitative, based on the kind of products we sell there."

"Spain now places great emphasis on products of high technology, but we have had problems placing them in foreign markets. Those industrial products make up more than 90 percent of our exports to Latin America, and that is extremely important to us."

Mexico, especially, has increased its purchases of such material from Spain; exports to Mexico have grown 63.6 percent in the past year to a 1981 value of 10 billion pesetas. Why, Mr. Arenas was asked, would Mexico, with the United States so close to it, buy great amounts of highly technical goods from Spain?

"We are quite competitive," he said. "There is also a big common factor there and in other countries of Latin America — much more meaningful than their having been colonies of Spain or sharing our language — that we have the same way of seeing problems. Spaniards and Latin Americans can reach an understanding very rapidly."

Another factor that Mr. Arenas and other economic officials emphasize as a national advantage is that developing nations seem to feel comfortable working with Spanish business people because of Spain's own recent experience with underdevelopment.

"It may be that the personnel of those Spanish companies are more used to working under difficult conditions. If they go somewhere in North Africa or South America or the Far East and the telephones do not work, they do not all just leave, as workers from more highly developed countries might," Arenas said.

The "economic miracle" that catapulted (Continued on Page 12S)

## OECD Predicts 2.5% Rise In Gross Domestic Product

PARIS — Despite an average increase of less than 1 percent a year of Spain's real gross domestic product between 1979 and 1981, the OECD has forecast a 2.5 percent growth over the next two years.

The annual economic survey of Spain, issued at the end of May, says this development is based on the assumption of a normal agricultural year, and continued growth in exports and tourism receipts.

The study sees a decline in inflation, helped by moderate wage growth, and a slowing down in import prices, but a continued, though slower increase in unemployment to 16 percent of the labor force.

Consumer Price Rise

Although private consumption is expected to fall by 0.25 percent, public consumption and gross fixed capital formation should rise by 2.5 percent and 3.5 percent respectively, with government gross investment expanding by about 15 percent in volume. But the OECD does not see broadly based business a fixed investment, most of the expansion coming from energy-related and rationalization expenditures.

The consumer price index should rise by 13.25 percent.

If the economy evolves along these lines, then OECD forecasts a 3.5 percent increase in GDP for 1983 leading to a slight drop in unemployment levels to 15.5 percent of the labor

force and a further decline in the inflation rate, with domestic demand progressively replacing net exports as a source of strength.

The rise in consumer prices should decelerate to 11 percent, while private consumption and fixed investment could pick up.

But this scenario, the OECD study warns, requires a relatively favorable international economic environment, maintenance of a moderately expansionary policy stance and further wage moderation.

The study praises efforts to control nominal wages, slow the rise in unit labor costs, reduce dependence on imported energy (one of the main structural weaknesses), start restructuring crises ridden industrial sectors (a move "long overdue," and seek government-business management consensus in the shape of the ANE Acuerdo Nacional sobre el Empleo of 1981).

The OECD warns that automatic stabilizers have exerted heavy pressures on the public sector financial position, "already seriously deteriorating as a result of discretionary measures taken to support activity and improve social benefits." The growing public sector financing requirements, the OECD adds, have complicated the tasks of monetary management, implying a risk of restriction of domestic credit to the private sector. As in other countries, there are underlying social pressures for the expansion (Continued on Page 13S)

## Infusion of Techniques, Ideas Welcomed 3 Years After Arrival of Foreign Banking

By Tom Burns

MADRID — It has been three years since foreign banks were allowed to operate, albeit restrictively, in Spain and almost all concerned are more than satisfied that the protectionism was lifted.

Reviewing the impact of foreign banks on the internal scene, Angel Madronero, director general of the Bank of Spain, pronounced himself "very satisfied." The head of one of the first foreign banks to open offices in Madrid when the restrictions were lifted admitted that there were "raised eyebrows" among the Spaniards at the incoming competition but, he added, "there are no problems now." Antonio Basategui, a chief executive of the major Spanish Hispanoamericano banking group, termed the presence of foreigners "very positive. They brought with them a banking that was unknown here. They brought ideas." (An additional article on the changes brought by foreign banking appears on page 11S.)

It was precisely ideas and new practices that formed the basis of the Bank of Spain's strategy when it mapped out the entry of foreign banks into the Spanish domestic market. Sooner rather than later the protectionism had to be lifted for reasons of reciprocity if nothing else. Spanish banks were forging

ahead abroad. By 1979, in any case, the lifting of protectionism was seen as a complement to the post-Franco political transition not least because, with democracy restored, Spain was negotiating entry into the European Community.

Financial Sector Revitalized

Thus faced with the unavoidable prospect of opening up Spain to the foreign banking community, the Bank of Spain ensured that the new blood would revitalize the financial sector. "We wanted to boost good medium and long-term financing and we wanted to develop and diversify the interbank market," said Mr. Madronero.

The Bank of Spain laid down these main restrictions: Foreign banks were not permitted to open more than three branches and customer deposits in pesetas could not exceed more than 40 percent of their assets. In practice the second restriction is a consequence of the first and the Bank of Spain added two further guidelines to ensure that its planned strategy would be followed:

Foreign banks were barred from investing in equities and their guarantees could not exceed three times net worth. Mr. Madronero claimed the restrictions were more "theoretical" than anything else and over the past

three years the bulk of the foreign banks have in the event preferred not to open up the three permitted branches and opted instead for a tight team working out of Madrid. A senior British banker in Madrid agreed that the authorities could not be accused of "overregulating" and that the Bank of Spain had merely pointed the way in which it wanted the foreigners to move. "From the start we knew we were supposed to be market catalysts," said the banker.

The foreign banks needed no further encouragement. Carlos Martinez Campos, chief executive of the Barclays group in Spain, emphasized that foreign expertise soon found good prospects in spearheading floating peseta credits. "The variable, syndicated loan was the only way to keep going," said Mr. Martinez Campos. The foreign banks did more than keep going. Most sources agree that the foreigners were earning more than 20 percent on their capital. Initial doubts about creating from scratch an interbank market were quickly dispelled. A second surprise was that the big borrowers were not the multinationals but Spanish companies and certainly there was no difficulty in obtaining funds on a rollover basis.

(Continued on Page 16S)



## Dollar's Rise Hampers National Energy Plan

But Program Has Cut Oil Consumption and Increased Coal Production

MADRID — In the late 1970s, it became clear to Spanish economic planners that the country had a serious balance-of-trade problem and that a major source of this deficit was oil imports. In July, 1979, parliament approved a National Energy Plan (PEN), which was to cut the oil import bill over the next decade by reducing consumption and increasing the production of domestic forms of energy — especially coal and nuclear power.

PEN is now approaching its third year, with revised goals and an increasingly clear picture of its successes and failures. It has succeeded in reducing consumption and in increasing coal power. But while Spain is lowering the tonnage of oil imported annually, the bill for the oil keeps rising — from 807.4 billion pesetas in 1980 to more than one trillion pesetas in 1981. This phenomenon has largely been caused by the dramatic decline in the peseta against the dollar, with which oil is purchased.

Inconceivable, the biggest failure in PEN has been nuclear energy. According to the original plan, nuclear energy was going to rise from 2.2 percent of total primary energy in 1977 to 9.8 percent this year and 14.8 percent in 1987. Instead, it

has fluctuated, going down to 1.5 percent in 1980 and finally getting up to only 3.4 percent last year.

The problems have been both political and technical. The four nuclear plants of the so-called first generation, activated between 1968 and 1981, have been plagued by structural defects and operational failures that have caused shutdowns. In the first full year of PEN, there was even a decline in nuclear power because the 469-megawatt General Electric reactor at Santa Maria de Garona was out of service for five months while a metallurgical defect was being corrected.

Further delays were caused by the second generation of seven reactors falling far behind their optimistic construction schedule. Almaraz I, which was recently activated, had been scheduled for operation in 1979. Almaraz II, which was supposed to be completed last year, is expected to begin operation this month.

"We have recognized the delay in construction," said Energy Commissioner Luis Magana. Thus, the 1981 revision of PEN has scaled down the 1985 nuclear goal to only 10.6 percent of total primary energy. But even this is based

on a considerable degree of optimism.

According to Mr. Magana the main technical problem has been in the design of water-flow distribution. "The problem is now very well known," he said. It has been studied with U.S. engineers at Almaraz I, which is being shut down every 1,500 hours to observe the functioning of a modified design. Almaraz II, which was originally to begin operation in 1980 and is now rescheduled for activation in October, will have the new design.

### Construction Halted

The surge in nuclear power forecast for 1985 in the revised PEN assumes that in addition to the two Almaraz plants and Asco I four plants can be activated by 1984, including two at Lemóniz, near Bilbao, where Basque extremists have brought construction to a halt.

In May, the armed wing of the Basque nationalist movement, ETA, for the second time shot and killed a Lemóniz engineer and threatened to kill others. The technicians have refused to continue working at the site and the Madrid government, in meetings with the private firm that has already lost hundreds of millions of dollars on delays, Iberdrola, and the regional Basque government has vowed to bring in special teams to continue the construction.

Coal, on the other hand, has been far more productive than PEN's optimistic planners had forecast. The original goal was for coal to produce 16.2 percent of the primary energy by 1987. Last year, coal had already reached 21.3 percent and the newest revision calls for 24.3 percent by 1987.

Between 1977 and 1981, Spanish coal production rose from 17.9 million tons annually to 33.5 million tons, due mainly to strip mining in the northwestern region of Galicia where there is an estimated 200-million-ton reserve.

The government is trying to convert the two big oil consumers, the cement industry and electrical production to coal (and nuclear in the case of electricity). But the recession in the Spanish economy is making it difficult for companies to raise the capital for conversion. The government is offering long-term low-interest loans as an incentive.

Ironically, as plants have been converting to coal power, Spain has begun for the first time to be an importer of fuel oil, which caused a 15-percent increase in Spanish oil imports last year.

Spanish planners are losing enthusiasm for natural gas, and negotiations to connect with the Soviet Union's European pipeline have been postponed. Madrid has found that price increases in gas, contrary to what they had expected, have been steeper than oil. Spain's main suppliers are Algeria

and Libya. Mr. Magana expressed fear that the recent high-priced French-Algerian gas deal will send prices even higher. Spain currently has no domestic gas production but has discovered four fields — two offshore — and plans to be 30-percent gas self-sufficient by 1987.

PEN anticipated a decline in the role of hydraulic energy because it was thought to be already exploited to its maximum in arid Spain. However, the government has recently become interested in mini-hydraulic plants that produce a maximum of 5 megawatts each. Already 250 such plants have been contracted and the government is offering favorable terms to encourage more. Mr. Magana believes that there is a potential for enough of these small plants that do not require major flooding projects to produce the equivalent of three nuclear power plants.

Although solar energy is only projected to produce 5 percent of total Spanish energy in 1985, the solar industry is flourishing. An estimated 45,000 square meters of solar panels will be sold in Spain this year. The government is studying the application of solar industry to the food and dairy industries and is actively looking for foreign partners in photovoltaic experiments. There are already 10,000 photovoltaic houses in Spain in remote places away from electrical lines.

Meanwhile, the Spanish energy industry is looking abroad. The national coal company CARBOX and the private company APROCAR are both involved in foreign coal exploration and investing in foreign mines.

APROCAR is negotiating with the Chinese for a coal exploration contract. The national oil company, Hispanoil, is negotiating oil and gas exploration contracts in China and is also active in the North Sea, Central America, Oman and Equatorial Guinea. Foreign uranium exploration has recently been taken out of the hands of the Junta Nacional Nuclear and placed with a national uranium company, ENUSA.

—MARK J. KURLANSKY

Harry Debelius, Vanya Walker-Leigh, Mark J. Kurlansky and Barbara Bell are Europe-based freelance journalists who have often reported from Spain for the International Herald Tribune. Their work has also appeared frequently in IHT special supplements. Tom Burns is the Madrid correspondent for the Washington Post and Newsweek Magazine.

## SPAIN THE ECONOMY

## Space Problems Restrict Vast Fishing Fleet

VIGO — In a sheltered Atlantic harbor, 20 miles of Galician pine forested mountains away from the Portuguese border, sits one of the most important fishing fleets in the world. With more than 5,000 fishing vessels, Vigo has the largest fleet in Galicia, which is the biggest fishing region of Spain, the third-largest fishing nation in the world (after the Soviet Union and Japan).

Galicia, Spain's extreme northwestern region, derives about 40 percent of its output of goods and services from fishing. Vigo has the big industrial fleet of large trawlers and long-liners that fish all over the world and freeze the catch. In La Coruña, as in the Basque port of San Sebastián, the fleet is mostly small boats that bring in fresh fish from European waters.

But it is the international negotiations from Madrid that have become the key to fishing prosperity. The Spanish fleet could easily increase its catch and the Spanish market remains one of the best in the world, but only half of Spain's catch can be found in its own territorial waters. The extension of territorial waters claimed by many countries to 200 miles has kept the Spanish catch from expanding and has forced its market share down from 2.34 percent of the world catch in 1970 to 1.75 percent in 1980.

Miguel Aldasoro, the government's secretary for fishing who heads Spain's fishing negotiations, compares the situation to the period in the 19th century when open cattle range in the American West began to be fenced off, producing "range wars." In contrast, in this case, he said, "I think people are acting very well. The sea used to be free and it is not anymore."

### Andalusian Fleet

The Andalusian fleet (Spain's second-largest) has been considerably restricted in Moroccan waters, and Cadiz fishermen are periodically arrested off Morocco. Galician licenses in Portugal must be annually negotiated. Nevertheless, Mr. Aldasoro said, "With all countries we have improved our situation, except with the [European Economic] Community it gets worse."

Every year, Madrid renegotiates for the use of EEC waters, and every year the number of licenses and quotas on fish becomes smaller. The EEC justifies the restrictions by saying that overfishing is taking place, but Spaniards have grown skeptical because the types of fish that Northerners overfish, such as cod and herring, are for Nordic markets. The Spaniards are interested in bottom species such as hake and squid.

Carlos Gago, the leader of the

fishing association in Vigo, believes that EEC restrictions "are for economic reasons, but the EEC pretends it is biological." Mr. Aldasoro has similar suspicions, pointing out that the Common Market exported 380 tons of bottom species to Spain in 1977 and 17,000 tons in 1981. He claims that European fleets, particularly the French, are developing boats for bottom fishing to sell to the Spanish market.

The Spanish market is extremely valuable because Spaniards on the average consume 66 pounds of fish per person annually while the European average is 30 pounds. Furthermore, the Spanish market price is about 30 percent higher on traditional varieties.

"Common Market" entry will be a disaster not only for Galicians but for all of Spain," Mr. Gago said. "They will get our market. We will not get their waters."

Pedro Ortega Macazaga, leader of a San Sebastián fishing association, and some other industry leaders agree. But many of the fishermen seem vaguely favorable to Spanish entry in the EEC. Juan Tovia, who owns three boats in La Coruña with British partners, said, "There is a risk to entry, but the Spanish fleet is very flexible and can fish other species."

According to Mr. Tovia, seven ships from Galician and Basque ports have moved to Ireland and

40 to England to fish in European waters under flags of convenience.

The Spanish government is preparing to enter the EEC by offering credit and financial incentives to owners of small European fresh fish boats who are willing to change to large vessels for long-distance fishing. There are currently only 142 licenses available for 416 European-type boats. "I am quite sure that the Community will not let me enter with 400 boats," Mr. Aldasoro said.

There are other worries for Galician fishermen. The scandal last year over toxic olive oil hurt the Vigo canneries (although no cases of toxic oil in canned fish were found). Chronic problems, meanwhile, include rising fuel costs that reduce already slim profit margins, increasingly frequent truck strikes that keep fresh fish from the markets, radioactive waste from European nuclear power plants that are buried in concrete and dumped in deep water 465 miles off Galicia, pollution of shellfish beds from the tanker port at La Coruña and collisions with the heavy tanker and cargo traffic in Galician waters.

Asked if fishermen in La Coruña were worried about the nuclear waste off their waters, Mr. Tovia replied that there was some concern, but "the problem is that they have too many other problems."

—MARK J. KURLANSKY

## EEC Entry Dominates Key Industrial Sectors

(Continued from Page 95)

covering three companies, has already resulted in some job cuts and improved financial results — but final plans for the sector will be drawn up after the Japanese steelmaker Kawasaki submits an exhaustive report on prospects for Spanish steel, especially with a view to aligning plans with restructuring under way in the EEC steel industry.

Conversations between EEC officials and Spanish government and industry executives have pointed to considerable differences of view especially on the desirability of building a new hot rolling mill in Spain.

Plans submitted by seven special steel manufacturers, meanwhile, have been approved, while a decree setting out reconstruction guidelines for common steels was issued in March.

Controlled 70 percent by INI, the state industrial holding company, loss-making Spanish shipyards facing orderbooks 40-percent below the 1974 level will operate a 34-percent capacity reduction during the next two years to 730,000 compensated gross registered metric tons (grt).

By 1983, the two major shipbuilders Asea and Astano, both controlled by INI, will have a total capacity of 430,000 grt, the remainder being spread over 25 medium-size and small yards. The sectoral plan also provides for 5,000 layoffs by big yards and 3,000 by small, reducing the shipbuilding work force to 32,000, boosting productivity by about 25 percent.

### Continuing Talks

In the automobile electrical components sector, Fensa and the Spanish operation of Robert Bosch, West Germany, submitted a plan involving a 25-percent reduction of their 6,300-person work force, coordinated production plans and financial reorganization accepted by the government last October. Twenty manufacturers of "white" household appliances (coolers, washing machines, refrigerators, heaters) have regrouped into five associations to distribute production while reducing excess capacity (30 percent) and work force (by about 4,000 people). So far, two plans have been approved.

Although not originally identified as a crisis

sector, the footwear federation lobbied successfully for government support for a reconversion plan it drew up last year. Talks are continuing to draw up guidelines for reconversion of the electronic components and copper sectors.

While the Ministry of Industry has stated that "the list is now closed," a number of other talks are going on or are planned with individual companies in other sectors encountering similar difficulties.

The complexities involved in retooling these industries for survival has pointed out the need to strengthen government aids to small companies, and to do technological research.

The mandates and financial resources of IMPI (Instituto de la Pequeña y Mediana Empresa Industrial), the small industries institute set up in 1978, and the CDTI (Centro para el Desarrollo Tecnológico e Industrial), center for technological and industrial development will be expanded. Both institutes are closely linked to the Ministry of Industry.

The government has also laid before the parliament two draft laws on technology and patents.

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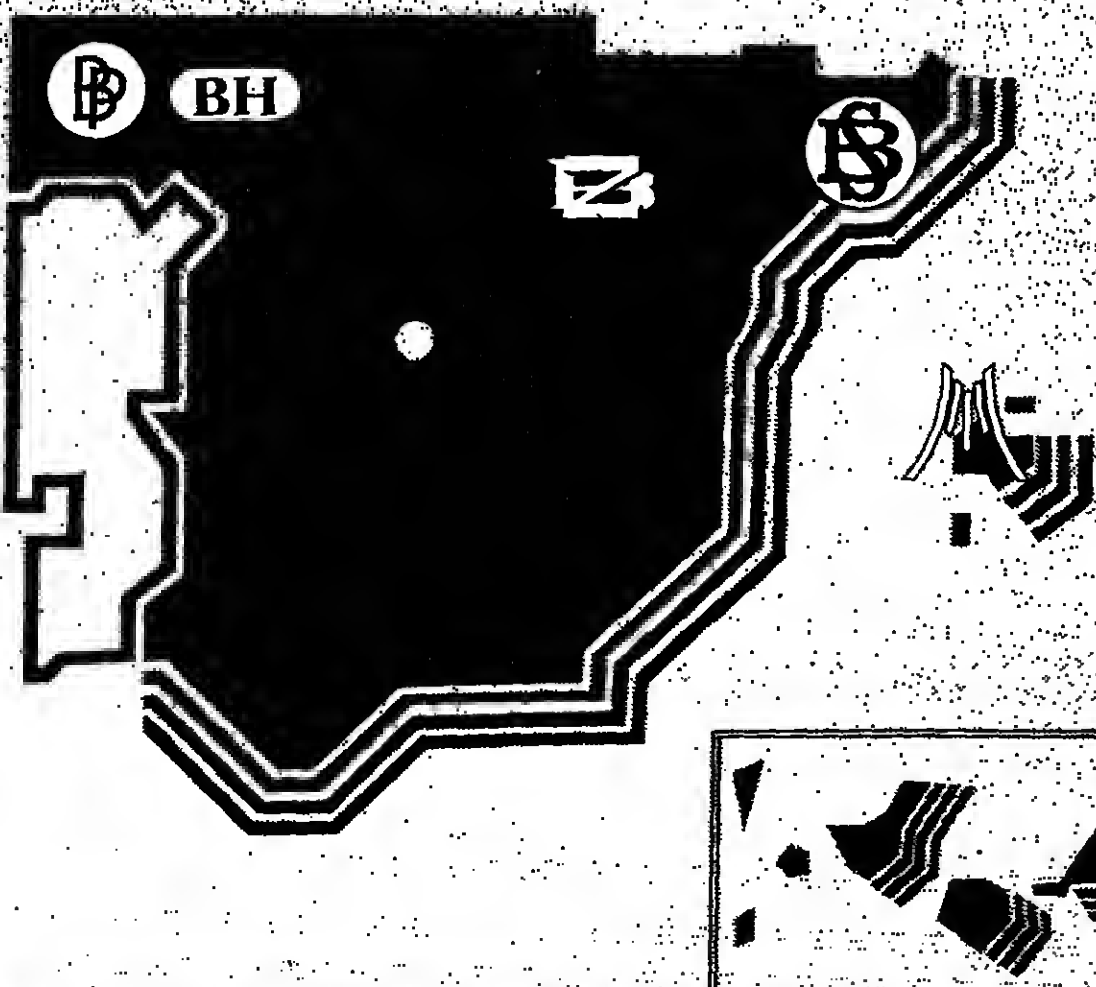
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# BANCO ARABE ESPAÑOL

المصرف العربي الأسباني

ORDINARY ANNUAL GENERAL MEETING OF SHAREHOLDERS HELD  
In Madrid on 27th May 1982

The following are extracts from the address delivered by the Chairman of the Board of Directors, Mr. Abdullah A. Saudi:

- Arasbank continued its healthy development through a policy of sound diversification while maintaining a banker's traditional prudence.
- Net income before provisions for possible loan losses and income taxes amounted to Ptas. 2.060 Million, (equivalent to US\$ 21.17 Million) compared with Ptas. 1.225 Million for 1980, a rise of 68%.
- Net profit after income taxes amounted to Ptas. 1.065 Million, nearly double the 1980 figure of Ptas. 565 Million.
- Total foreign currency and Ptas. deposits at the end of the year totalled the equivalent of US\$ 1.258 Million.

- By the end of 1981, Arasbank had completed the restructuring of Banco de la Exportación, S. A. - BANEX, in which it obtained a controlling interest in April 1981. BANEX is now an efficient and profitable bank able to provide financial assistance and advice to medium and small sized firms in the Valencia area, especially to those operating in Arab markets.
- The Chairman made reference to the election of Arasbank as "Bank of the Year for 1981" at the banking forum organized by the prestigious magazine DINERO.
- The Barcelona office was opened to the public in March 1982, thus allowing Arasbank to service conveniently the important business community in the Catalanian area.

AUDITED BALANCE SHEET\* (in Thousands of Spanish pesetas) - December 31st 1981  
Mid market rate of exchange: 1 US\$ = 97,31 pesetas.

ASSETS		LIABILITIES AND SHAREHOLDER'S EQUITY	
Cash and Bank of Spain	258,028	Demand deposits	4,367,885
Due from banks:		Time deposits:	
Pesetas	1,821,451	Pesetas	11,230,475
Foreign currency	63,919,475	Foreign currency	99,730,119
	65,740,926		110,960,594
Loan and bill portfolio		Cash bonds	1,000,000
Pesetas	16,755,829	Accrued interest payable	3,554,659
Foreign currency	37,910,995	Redeemed bills - Bank of Spain	1,356,000
	54,666,824	Current income tax	229,682
Provision for possible loan and bill losses	1,659,406	Other liabilities	703,907
	53,007,418		122,172,727
Equity investments	1,459,488	Pension Plan	—
Bonds	3,164,865	Minority interest	—
Bank premises and equipment, net of allowances for depreciation	1,085,569	SHAREHOLDER'S EQUITY	
Goodwill	—	Share capital	5,250,000
Accrued interest receivable	3,813,136	50% of capital increase not yet paid in	1,125,000
Other assets	55,742	Paid-in share capital	4,125,000
	128,585,172	Retained earnings	1,222,011
		Net income for the year	1,065,432
			6,412,445
			128,585,172
Customer's liability for documentary credits, acceptances and guarantees	27,420,077	Documentary credits, acceptances and guarantees per contra	27,420,077
	156,005,249		156,005,249
MEMORANDUM ACCOUNTS	78,760,005	MEMORANDUM ACCOUNTS	78,760,005

\* These are abbreviated financial statements extracted from those expressed in Pesetas audited by Ernst & Whinney Full audited financial statements are available upon request to the Bank.



## Automobile Industry Optimistic About Foreign, Domestic Sales

MADRID — The Spanish automobile industry is unhappy about the immediate past, but resolutely optimistic about future sales at home and abroad.

At 213 cars per 1,000 inhabitants, Spanish car ownership is well below the 300 plus average in most European countries. But sales on the domestic market have plummeted from 625,000 to 435,000 between 1974 and 1981, sliding 16 percent in 1981 alone. Exports have only partly compensated the drop, going from 314,000 to 433,000.

The 8.8 percent increase in domestic sales between January and April this year, compared to the same period in 1981, may prove to be just a flash in the pan, which manufacturers think was sparked off by a massive advertising campaign for new models.

Enrique Laguarda, director-general of ANFAC, the Spanish vehicle manufacturers' association, attributes the slump not only to stagnating real incomes but increased unemployment and rising gasoline prices. "Both new and used cars in Spain carry a luxury tax of 24 percent and the maximum duration of hire purchase agreements is three years, with interest rates ranging from 14 percent to 20 percent," he said in an interview. "That makes the basic standard car pretty expensive for the average Spaniard right now," he added.

Optimistic About Growth  
However, Mr. Laguarda foresees the luxury tax being replaced by a hopefully lower value added tax, to be introduced on all items and transactions when Spain enters the European Community. Patrick Byrne, manager of Ford's Spanish operation, is also optimistic about future growth in the

Spanish market, forecasting total sales for the sector of at least one million units by the mid 1990s — "Though there will be more competition with the Europeans getting free access to Spain for their products and the Japanese here in some form or other," he said.

Sales of imported automobiles (\$3,678 in 1981) only account for about 10 percent of the market, which included heavy import duties. Foreign manufacturers, who have Spanish manufacturing operations, are under severe government restrictions concerning the number of models manufactured abroad, by satellite companies, for sale in Spain while sales of automobiles, made by companies with no operations here, are limited by high duty and small distribution networks.

Spanish automobile manufacturing is overwhelmingly non-Spanish. Its large capacity (in relation to the potential domestic market) is geared to extensive sales abroad, mainly to the EEC, as part of the multinational manufacturers' world production strategies.

General Motors subsidiary, Opel, has just become the sixth producer with an estimated output of 270,000 cars per year in its newly completed plant in Zaragoza, opening June 7.

Four of the five remaining manufacturers are international automakers — Peugeot's subsidiary Talbot, Citroen, Renault and Ford.

The state-controlled SEAT (belonging to the Instituto Nacional de Industria) has developed, and will continue developing, in partnership with foreign interests.

SEAT, with a production capacity of 400,000, sold 123,745 automobiles on the home market and

101,330 abroad in 1981 (11.3 percent and 23.2 percent less than in 1980). The firm has been plagued by overcapacity, overstaffing and heavy losses — 20,500 million pesetas in 1980 and 19,000 million pesetas in 1981.

In 1980, SEAT's long-time partner, FIAT of Italy, refused to go ahead with provisions in the partnership contract to expand its stake in the capital to a majority holding and to fully integrate the two companies' operations. A year later, INI agreed to an out of court settlement whereby FIAT ceded its shares and know-how while agreeing to distribute SEATs through its network outside Spain at the rate of 80,000 to 90,000 vehicles a year up to January, 1986.

SEAT is adapting FIAT designs, launched in Spain, such as the Panda and Ritmo, and will start distributing abroad through its own network next January.

Open Negotiations  
Hopes that either Nissan or Toyota might step in to take FIAT's place fell through after lengthy, behind the scenes negotiations. But SEAT now seems ready to conclude a broad agreement with Volkswagen.

If negotiations are successfully completed by July, as foreseen by company representatives, then VW would undertake to annually distribute 50,000 to 60,000 SEATs under its brand name through the VW world network. SEAT would also manufacture VW's Polo at its Pamplona plant at the rate of some 100,000 units a year, half for export plus some 20,000 Passats and 10,000 Santanas in its Barcelona factory for the Spanish market.

SEAT would also agree to distribute imported VWs in Spain through its 1,250 sales points. The company acknowledges this could triple the sales of VWs next year, which only totaled 3,800 units in 1981.

Ford, which sold 55,932 cars in Spain last year and exported 189,498 (1.7 percent and 7.6 percent less than 1980), has recently invested in modifications for its plant near Valencia to produce the Escort model, alongside the successful Fiesta, and is just completing work to expand daily output from 1,140 to 1,240 automobiles. "Spain is very high on our list of priorities for further expansion in Europe," Mr. Byrne stated, "but I can't make any firm forecast right now of what we will do here next."

Competitors Progress  
Talbot, which sold 54,221 cars on the home market and 7,246 abroad (-5.0 percent and +15 percent compared to 1980), produces four models for Spain and abroad at its Madrid plant, but may start making certain Peugeot models in the future.

Citroen Hispania, which sold 43,856 cars on the Spanish market in 1981 and 29,880 abroad (-16.8 percent and -0.1 percent compared to 1980) makes five basic models, plus the Peugeot 500, at its two plants in Vigo and Orense but does not plan any further capacity expansion right now.

Fasa Renault, which sold 157,379 cars in Spain in 1981, 105,169 abroad (-20.4 percent and -14.7 percent compared to 1980), and makes 20 models at its three plants in Valladolid, Valencia and Sevilla, also has no plans to upgrade capacity.

— VANYA WALKER-LEIGH

## AGRICULTURE

### Productivity Is Increasing, but Role In Economy Declines to 7.25% of GNP

MADRID — The myth that Spain is a predominantly agricultural country is one example of how the national image is changing far more slowly than the national economy. Today, Spain is an industrialized country in which agriculture, in spite of growing production, plays a smaller role each year.

Between 1970 and 1980, the role of agriculture in the gross national product declined from 11.3 percent to 7.25 percent. The role of agriculture in employment has dropped from 28.3 percent in 1970 to 17.4 percent in 1980.

Jose Luis Alvarez, Spain's minister of agriculture, fishing and food, regards the absorption of agricultural workers into industry and service sectors as a natural result of the process of making agriculture more efficient. The minister said that the government's main concern was to increase productivity.

#### Improving Efficiency

Florencio Perez, president of the National Institute for Agricultural Reform and Development, said the percentage of the active population in agriculture should be allowed to fall to about 12 percent, which would still be higher than most Common Market countries (all except Greece and Ireland).

The government's plan has been

to decrease the farming population while increasing production. This is being done by improving the efficiency of existing farms and cultivating new land. Spain already has more cultivated land than any other country in Western Europe and adds to this every year through both public and private efforts. This year, the government will render an additional 250 thousand acres into farm land and private initiatives will yield more than 400 thousand more acres. This is primarily accomplished by irrigation projects in arid areas.

The efficiency problem in Spanish agriculture is expressed in two words — latifundia and minifundia. Latifundia is farms that are too large to be fully utilized by their owners; minifundia is farms that are too small to be viable.

According to Mr. Perez, virtually all of the 420,000 farms in Andalusia, one of the major agricultural regions, are either too large or too small. The national institute buys unused parts of latifundia and sells them to farmers with too little or no land. They have sold land to 56,000 families on interest-free, 30-year installment plans.

In 1979, a land-reform bill was passed on what is termed Fincas Manifestamente Mejorables (demonstrably improvable farms). Under the provisions of this law, the government can inspect farms and if they are found to be inefficient

can draw up a plan for improvement. If the farmer refuses, the government can confiscate the land. However, after two years in which almost 1,500 farms have been inspected, no land has been confiscated. "We do not want to be farm owners," said Mr. Perez. "We want to improve farms."

By official statistics, unemployment is much lower in agriculture than other segments of the economy. Furthermore, the government creates jobs each year for tasks such as reforestation, Mr. Alvarez

expects his ministry to create directly and indirectly 75,000 jobs this year.

#### Difficult to Measure

The National Institute is trying to absorb the surplus work force in cooperative projects for food processing and marketing on the farms. Traditionally, Spanish farmers do very little of these secondary activities.

According to Mr. Alvarez, a major problem in Spanish agriculture is poor marketing. "It is a problem

of education and of forming agricultural associations," the minister said.

Spanish agriculture suffers from a chronic balance-of-trade deficit. The deficit is primarily with the United States and has been growing at an alarming rate in the past five years. Livestock and animal production accounts for 40 percent of Spanish agricultural production. Since no cost-efficient domestic feed has been developed, the Spanish buy huge quantities of American corn and soy beans.

Mr. Alvarez feels that the solution is to compensate by selling Americans more products such as wine, olives and olive oil. The minister believes that this is a marketing problem. "Spanish second-level wine is much better and cheaper than French (second-level wine) but the Americans do not know it," he affirmed.

But he is hesitant to launch a government marketing campaign in the United States such as the French are doing.

— MARK J. KURLANSKY

## 'Evolution' or 'Revolution?': Banking Has Changed Rapidly Since '78

MADRID — Some Spanish bankers call it a revolution; others speak of "rapid evolution" and "profound structural change."

They generally agree, though, that banking in Spain has changed enormously, in fundamental ways, in a very short time. Most bankers and economists here pinpoint the beginning of that change in a royal decree dated June 23, 1978, signed by King Juan Carlos I, authorizing foreign banks to establish operations in Spain for the first time since the Civil War.

From a first group of 10, the number of foreign banks has grown to 29. More are expected to join their ranks soon; the magazine Actualidad Económica predicted recently that the next two foreign banks to receive permission to open offices here would be Brazilian and Argentine, followed by two Belgian banks.

"Liberalization, competition, serious professionalism, the introduction of new financial instruments, all of this seemed to sweep almost simultaneously over the Spanish banking world after 1978," a veteran economic observer said here.

The King, the democratic government and the

Bank of Spain had made clear their readiness to support liberalization and modernization in the banking sphere with the authorization of foreign banking. But once established, the foreign banks themselves lost no time before lobbying for further liberalization of a banking system that, like much of the political structure in Spain following the Franco regime, was full of controls and restrictions.

Almost as important on a psychological level was the spirit of competition, totally new to Spanish banking, that swept into the country with the foreign banks, changing the terms of daily operation and long-term planning even for the most conservative, tradition-bound Spanish bankers.

"Understandably, there was some resistance to us and our methods at first," said the Spanish general manager of an American bank who worked in banking outside Spain for a decade prior to 1978.

Spanish banking was already advanced in some ways before Franco died in 1975.

After the Bank of Spain dropped limitations on the number of branches Spanish banks could operate in 1974, a branch-opening spree occurred throughout

the country; the banks then found it necessary to computerize quickly in order to deal with their far-flung networks.

"Spain has banking systems that are often more technologically advanced than those you find in the United States and France," an employee of a large computer firm outside Spain said.

A prominent banker here offered a slightly different interpretation: "Spanish banks were highly equipped with computers, yes, but they were seen partly as a status symbol. The changes in management methods to take full advantage of the possibilities computers offer are only occurring now."

#### Management Changes

Another remarked that in spite of extensive computerization, he felt many Spanish banks still lacked modern pricing systems and cost-accounting controls.

The credit card, described by most bankers as the key to the world of new banking technology, is thriving in Spain, where the Banco de Bilbao introduced it during the economic boom years of the '60s in the form of the BankAmericard.

VISA is now the most widely used card in Spain. Eduardo Merigo, president of VISA Spain, says this country ranks third in all of Europe in use of "payment cards," behind only Britain and France.

"There are three million VISA cards in Spain," he says, "almost as many as in the U.K. and more than the number in France, although we have a lower volume of use per card." He adds that use, too, is growing, having increased 50 percent in Spain each year for the past three years.

Throughout the banking community, from the traditionally conservative Bank of Spain to those considered as innovators like the Banco de Vizcaya and the Banco de Bilbao, bankers seem to share the opinion of one of their fellows that the "whole shakeout" in the Spanish banking world has been a positive event.

More changes may well be in store. For one thing, foreign banks here are still not allowed to operate more than three branches each. Under EEC reciprocity rules, that limit would be abolished if Spain became a member of the Common Market.

— BARBARA BELL

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Deposits (Million Pesetas)	941.835,2	1.044.097,8	102.262,6	10,86
Loans (Million Pesetas)	591.577,1	688.917,7	97.340,6	16,45
Investments Portfolio (Million Pesetas)	109.984,8	123.749,6	13.764,8	12,51
Net Profit (Million Pesetas)	7.869,1	10.906,7	3.037,6	38,60
Net Profit After Taxes (Million Pesetas)	5.846,1	8.012,1	2.166,0	37,05
Dividends per Share (Pesetas)	77,2	112,0	34,8	45,07

Number of Branches	1.176	1.207	—	—
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SAN ESTEBAN — 264.000  
CONSO — 228.000  
VILLALCAMPO — 206.000

(As of 1981)



# New plans for oil in Spain

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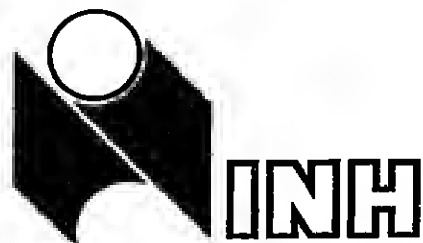
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## BANCO DE SANTANDER

The largest Spanish international banking network

### 1981 Highlights

	\$ million		
Capital & Reserves .....	650	Net Dividend per Share	
Deposits .....	6,396	(pesetas) .....	57.30
Loans & Discounts .....	4,897	Market Value (\$ million) .....	969
Investment Portfolio .....	906	Employees .....	10,353
Reserves for depreciation, loan losses & adjustments .....	114	Branches in Spain .....	913
		Offices of our group abroad ....	148

Profit after taxes 92,06 \$ million - Shareholders 366,583

BANCO DE SANTANDER GROUP  
1.251 Offices in 23 countries

#### 5 BRANCHES

Frankfurt  
London  
New York  
Paris  
Sao Paulo (to be opened)

#### 1 AGENCY

Miami

#### 3 REPRESENTATIVE OFFICES IN EUROPE

Brussels  
Geneva  
Vienna

#### FINANCE COMPANY

Santander Finance  
(Geneva)

#### 11 REPRESENTATIVE OFFICES IN AMERICA

Bogotá  
Buenos Aires  
Caracas  
Guatemala City  
Lima  
Mexico City  
Quito (to be opened)  
San Juan de Puerto Rico  
Santiago de Chile  
Santo Domingo  
Sao Paulo

#### 3 BANKS IN SPAIN

Banco de Santander  
Banco Comercial Español  
Banca Jover

#### 11 BANKS IN AMERICA

Banco de Santander - Argentina  
Banco de Santander - Costa Rica  
Banco Español - Chile  
Banco de Santander - International (Miami)  
Banco de Santander y Panamá (with Branch in El Salvador)  
Banco de Santander - Puerto Rico  
Banco de Santander Dominicano  
Banco Inmobiliario de Guatemala  
Banco Sociedad General de Crédito (Ecuador)  
Casa Bancaria Santander - Uruguay

Established 1857 in Spain

## SPAIN

### Balance of Payments

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
1. Imports (fob)	3 865	4 357	4 577	6 237	8 947	14 334	15 193	16 317	16 812	17 505	24 022	32 389
2. Exports (fob)	1 994	2 483	2 978	3 921	5 402	7 265	7 807	8 990	10 612	13 480	18 352	20 928
3. Trade balance	-1 871	-1 874	-1 599	-2 316	-3 545	-7 069	-7 386	-7 327	-6 200	-4 024	-5 671	-11 461
4. Services, net of which:	945	1 293	1 688	2 021	2 688	2 679	2 755	1 891	2 622	4 001	5 014	4 424
5. Tourism	1 195	1 543	1 878	2 220	2 872	2 869	3 096	2 690	3 486	4 917	5 558	5 720
6. Transfers, net	332	650	767	866	1 414	1 146	1 143	1 142	1 414	1 656	1 782	2 048
7. Current balance	-394	79	856	571	557	-3 244	-3 488	-4 294	-2 164	1 633	1 126	-4 988
8. Private long-term capital	482	696	602	934	810	1 613	1 788	1 447	1 746	2 113	2 835	4 020
9. Official long-term capital	24	-27	-103	-3	-45	56	15	570	1 277	-395	382	174
10. Total long-term capital	506	669	499	931	765	1 669	1 803	2 018	3 023	1 718	3 216	4 194
11. Basic balance	112	748	1 355	1 502	1 322	-1 575	-1 685	-2 276	838	3 351	4 342	-794
12. Short-term capital, errors and omissions	-342	65	-98	-11	370	782	930	1 204	-287	507	-830	246
13. Monetary movements (increase in assets = -)	230	-813	-1 257	-1 491	-1 691	792	755	1 071.4	-1 146	-3 857	-3 512	548
14. Changes in reserves	258	-854	-1 492	-1 623	-1 299	732	220	800	-1 145	-3 889	-2 985	1 342

1. Transactions basis.  
2. Including bank's local accounts in foreign currency.  
Source: Ministry of Economy and Commerce; OECD Secretariat.

### Foreign Trade by Commodity

	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
1. Imports, cif	214.1	242.4	259.6	314.9	364.2	168.2	202.9	254.1	275.7	356.8
2. Exports, fob	45.5	46.8	49.8	63.7	73.0	24.4	33.1	35.2	45.6	64.9
3. Oil products	383.2	406.6	515.0	942.6	1 258.8	29.0	25.3	26.4	38.9	59.1
4. Chemicals, plastics and rubber	144.4	161.9	196.5	232.4	274.1	96.6	134.6	153.4	186.1	218.1
5. Skins and leather	19.6	23.4	28.3	19.9	26.6	16.3	19.2	24.5	30.0	34.6
6. Wood and cork	25.4	25.3	28.9	39.9	30.2	11.7	13.7	16.8	23.1	26.0
7. Pulp, paper and books	24.1	25.6	31.7	42.5	47.9	26.0	35.4	45.8	59.7	72.3
8. Raw cotton, textiles and clothing	44.5	40.7	50.1	62.1	64.1	43.4	58.8	63.5	75.4	96.4
9. Glass and pottery	13.1	15.5	18.9	22.5	25.5	17.2	20.8	24.8	29.0	32.6
10. Metals and metal products	94.1	85.4	113.8	158.0	165.4	102.9	158.3	194.7	243.4	295.2
11. Machinery and transport equipment	212.8	214.4	233.7	307.4	359.4	93.2	119.0	154.1	192.0	244.9
12. Transport equipment of which: Cars, lorries and tractors	43.4	53.4	78.6	113.7	134.3	103.7	135.2	166.4	198.4	231.0
Aircraft (imports), ships, (exports)	36.2	43.2	58.3	84.7	83.7	74.4	104.2	124.9	163.5	177.4
13. Other	3.8	6.3	15.0	21.8	42.7	24.6	22.4	31.5	18.9	32.2
14. Total	86.3	90.2	99.1	130.3	148.9	66.1	83.1	90.1	100.6	128.5
15. Total less agricultural and food products	1 350.5	1 431.6	1 704.0	2 450.6	2 970.4	775.3	1 001.4	1 231.4	1 493.2	1 888.4
	1 136.4	1 189.1	1 444.4	2 135.7	2 606.2	607.0	798.5	957.3	1 275.5	1 531.6

1. Customs clearance basis.  
Source: Ministry of Economy and Commerce.

## REAL ESTATE

### 7-Year Slump Continues; Construction Prices Outpace Cost of Living Index

By Harry Debelins

MADRID — While there are exceptions to prove the rule, it is definitely a buyer's market in real estate in Spain.

The slump is not new for Spanish real-estate dealers, who have been facing it for several years, but it is disturbing to them. At the same time it is a boon to certain customers.

In 1981, for the seventh consecutive year, the construction sector grossed less than the year before. For the third consecutive year, domestic consumption of cement was down. At the same time, construction costs rose in 1981 by nearly 19 percent — about four points above the cost of living index.

Although the trade in land and already built property continued sluggish throughout the past year, with only a few bright spots, prices remained fairly steady in peseta terms. The only area in which they tumbled noticeably was in industrial real estate, reflecting the prolonged general recession.

#### Reduce Capital Outlay

Not only are fewer businesses expanding. Businessmen, anxious to maintain a satisfactory cash flow, reduce capital outlay and take advantage of tax provisions, are turning more often to rental rather than purchase of industrial and commercial premises.

In the midst of all this gloom, there are chalets in Marbella selling for more than \$1 million — and they are selling. There is no evidence yet of any slackening of demand in that particular jet-set milieu (a word that acquires new meaning with the influx of princes from the oil-rich countries in the Middle East).

Real-estate prices in Marbella have reportedly doubled in the past four or five years, in peseta terms, while they tended to stagnate in most of the rest of Spain.

A few other coastal areas, particularly in the south, are benefiting from a brisk property trade, but the pattern is strange. Benal-

madena, for instance, near Málaga, is doing well, while towns only a few kilometers east or west of there are still dominated by the skeletons of buildings begun years ago and never finished.

It does not seem to be so much a matter of the quality of the beach as of the taste of the people who frequent them. Thus Marbella and Puerto Banus lit by a firmament of stars of cinema, sport and just plain money, are much in demand. It is the cachet that brings in the cash.

#### Plenty of Buyers

Certain small provincial capitals, like Cuenca and Soria, are also running counter to the trend. There is no large-scale industry in these places, yet they are experiencing a demand for housing, and to a lesser extent commercial property, which frequently pushes the per-square-meter sale price of construction higher than the price for comparable properties in industrialized cities like Madrid, Barcelona and Bilbao.

The country's agriculture, punished by persistent drought over the past few years, is hard hit. Paradoxically, there seems to be plenty of buyers — without prices having dropped to sacrifice levels — for small to medium-sized farms and ranches.

Property dealers attribute this tendency to the widespread back-to-nature fad that is noticeable in such other aspects as the boom in natural foods and the growing political pressure for attention to ecological balance. They also think it reflects a search for "safe" investment possibilities, in which the property is not likely to become obsolete or depreciable, is not taxed at too high a rate and is not over-regulated regarding how it may be used.

The really big estates, nevertheless, are generally hard to sell. Potential buyers in the income bracket that permits them to consider owning large farms, ranches or private hunting preserves are wari-

than before about the social implications of being large landowners, and they worry about the destiny of such estates under some future leftist government.

It is increasingly difficult, not only from a social but also from a legal point of view, to retain vast undeveloped, under-farmed properties in Spain for hunting or some other purpose. A law regarding "manifestly improvable" agricultural land can be, and is occasionally invoked, particularly in depressed parts of the southern region of Andalusia, obliging the owners of such property to plant certain crops and make certain other improvements, such as improving irrigation if facilities are available, in order to increase the productivity of the land. Big landowners are also under pressure from the left in Andalusia, especially in areas where casual farm laborers are organized in unions, to plant labor-intensive crops and do away with mechanization, regardless of the effect on the profits.

#### Boosted Production

The areas where family-size farms are most in demand are those areas where new techniques, new crops and more water have boosted farm production. In Almería, the dry southeastern province, land that 15 years ago was virtually worthless is being snapped up today because of the success farmers have had with early fruit and vegetable crops, or year-round crops, under plastic. In the Canary Islands, the drip system of irrigation, which uses much less water than traditional methods, has sharply boosted the value of land suitable for growing bananas, because water is in short supply and is expensive in the islands.

Real-estate dealers link major factors affecting the market at present to the universal recession, tougher Spanish tax laws, inflation, the return of Spanish workers from abroad, the reversal of the internal population shift, government housing policy that has concentrated on promoting the construction of more dwellings even in the face of an apparent surplus, social and political insecurity and a changing lifestyle.

In addition, certain areas are affected by unique problems. Basque extremists, for instance, have induced a number of owners of small to medium business in the north to pull up stakes and move elsewhere, even if it means living on their capital.

The reversal of the population shift is the result of rising living costs and increasing unemployment in the industrialized metropolitan areas. Families that were previously attracted by the steady salaries and bright lights of the big cities are going back home to rural Spain — or almost. Few actually return to the tiniest villages — there are still plenty of ghost towns but many are moving to the towns and smaller cities in their respective native regions, where they have family and friends to rely on and where they can live a generally simpler, less complicated, less expensive life.

In Barcelona, for example, the population diminished by 150,000 between 1979 and 1981, and there are 80,000 unoccupied dwellings, according to a municipal official. Other big cities are experiencing the same phenomenon.

To a certain extent, the trail was blazed for the new internal migrants by hundreds of thousands

of Spaniards who worked in factories in West Germany, France, Switzerland and other countries north of the border in the 1960s and early 1970s, when Europe absorbed Spain's unemployed. Some of them prospered and returned home with enough money to set up small businesses or make their family farmland more productive. Others simply went back home because they had no other place to go when their jobs abroad ran out as a result of the general economic downturn.

The influx in the affected towns stimulated a demand for housing, after a decade or more in which not even enough dwellings had been built to take care of what might have been the normal population growth. It also created a demand for additional products and services in those places.

It is not entirely accurate to say that the reverse migration represents a mere relocation of the unemployed, because of building needs have modest savings. Some have the proceeds from the sale of their principal dwelling elsewhere. Most have skills acquired in the places where they worked, skills that can be put to use, and profitably so, in the newly burgeoning populations. Thus, economic stagnation is remarkably less noticeable in a number of provincial capitals than it is in the working-class districts of the big cities.

Meanwhile, real-estate patterns in the big cities are changing in other ways. The middle-class rush to buy a second home in the countryside around Madrid, Barcelona or other big cities for weekend and vacation use is over. Such cities are flooded with folders and leaflets offering tiny houses or building plots in the countryside at rock-bottom prices today, but there are relatively few takers.

By contrast, there is a modest but growing demand for single-family dwellings on the outskirts for year-round living.

Madrid, like most Spanish cities, is a place of apartments, rather than individual houses. Until little more than a decade ago, travelers entering the city on most occasions noticed how it suddenly and abruptly rose from the land around it. There was no gradual sensation of entry into the metropolis. The city simply began or ended in a steep pasture beside tall apartment blocks.

Now, Madridenos, particularly in the upper-middle income range, are starting to swap their flats for homes with a patch of garden in rapidly growing suburban communities at Majadahonda, Pozuelo, La Moraleja and even certain peripheral industrial centers like San Sebastián de los Reyes. Their decision is undoubtedly influenced by the ownership of one or more cars per family, vital for transport. Property agents feel this trend might have been stimulated through more foresight on the part of the authorities; they point out that Spain's public transport facilities, including road and rail networks, are woefully inadequate for the needs of suburban commuters.

Another factor depressing the residential real-estate market is the drop in the practice of purchasing apartments as investments, to be rented out. The combination of relentless inflation, laws that restrict tenants and make it difficult to evict tenants, and new tougher income and patrimony taxes has steadily reduced the attractiveness of apartments as investments.

## Volume of Exports Triples, But Payments Deficit Sticks

(Continued from Page 9S)

Spain in the 1960s from underdevelopment into rapid industrial expansion not only did not promote exports but actually discouraged them, Mr. Arenas explained.

"All goods produced were needed inside Spain to meet the demands of the rapidly growing economy and, inversely, finding markets at home, Spanish industry had no need to sell outside. It was only after the first big oil crisis, when the domestic market no longer grew enough, that producers had to seek markets abroad."

#### Interest in Debate

Spain continues to actively seek new markets, especially in the Arab world, to which 11 percent of its 1981 exports went, in the Communist bloc and in the Far East. Mr. Arenas says "it is making a big effort" in countries including Japan, Indonesia, the Philippines, Singapore and Malaysia.

Regarding the probable effect on exports of entry into the EEC, Mr. Arenas said only that "logically, it would be a good thing for Spain to be part of the largest con-

sumer area in the world" and that "logically, membership could increase our export market." He pointed out that Spain would be the second largest country geographically of the EEC and emphasized that Spain was intensely interested in the continuing Common Market debate about agricultural prices.

In a separate interview, Fernando de Azua, recently named chairman of the board of IBM Spain, had strongly positive feelings about the effect Spanish entry into the EEC would have on the exports of IBM, which already ranks among the top 15 exporting companies in Spain.

"The EEC will certainly benefit exports; customs rates that we now have to pay will disappear, for example."

"The strength of the dollar and the devaluation of the peseta are also helping in the rapid development of our exports of such products as magnetic tape units and communication controllers for banking systems to IBM sister companies in other countries," he said.



كذلك من الأصل

## Joblessness Hindering New Era In Labor

MADRID — "The worst thing that the Franco system did," Spanish Labor Minister Santiago Rodríguez Miranda said, "was to take liberties from people but give them security."

Under Franco's regime, which lasted almost 40 years, the only legal union was mandatory and state controlled. On the other hand, a private company had to prove itself on the verge of bankruptcy before it could lay off a worker.

The 1978 constitution guarantees the right to form and join trade unions, to engage in collective bargaining and to strike. This new era in labor relations was launched during a period that has proven to be extremely difficult for workers as well as for management. In 1977, the year that union activity was legalized, 5.8 percent of the work force was unemployed. By the beginning of this year, the figure had risen to 13.5 percent.

The problem of unemployment has caused the young union movement to form within an atmosphere of insecurity, creating relatively non-militant unions that clearly place employment ahead of wage and benefit demands. Diego de Pedrosa, president of the labor relations committee of the CCOO (Spanish Confederation of Employers' Associations), which represents private business interests, described it as "a psychosis of unemployment."

### Small Unions

After unions were legalized, many small ones immediately appeared; some were regional or from small political factions. In the 1980 elections of worker representatives to a joint council with employers, 14 unions participated. It was agreed that only unions receiving more than 10 percent of the worker vote would be entitled to bargain (unions with 15 percent in a specific region can participate in bargaining within that region).

Due in part to a large independent vote, only two unions achieved the minimum national percentage: the Communist Party-backed CCOO (Workers' Commissions) and the Socialist-backed UGT (General Union of Workers). Small unions that failed to gain bargaining powers remain active although relatively impotent. They include an independent Socialist union, an anarchist union, a Marxist-Leninist group and a union backed by the extreme rightist Fuerza Nueva (New Force).

A large part of the work force remains nonunion. The unions claim that 30 percent of the salaried workers are organized, which would be 2 million workers of an active population of 13 million. A UGT spokesman, Jeronimo Saavedra, said that one of the main problems in organizing was that the 1980 agreement guaranteed the negotiated contract to all workers in a sector, even if they are not affiliated with any union. The unions are further weakened by the fact that they are poor (because of low membership) and have no fund to sustain their members during a strike.

"Many people are not affiliated with a union and understand that the important thing is to have a job," said Jose Luis Ceron, president of the CCOO's economic commission and a former Franco Cabinet minister who still prominently displays the late leader's photograph in his office. "I think the government is too afraid of unions," he said.

### Good Relations

Nevertheless, the private sector and the government have made an effort to maintain good relations with the unions, and the effort has paid off. According to the CCOO, the private sector lost 170 million hours in strikes in 1979 and only 70 million hours in 1980 and even less in 1981. Mr. Rodríguez Miranda expressed confidence that this trend was continuing this year, but the CCOO disagrees with this assessment.

The CCOO believes that the current pact between the two main unions, the government and itself — known as the ANE (for National Employment Agreement) — is not as successful as its predecessor, AMI.

The AMI was signed to cover a two-year period from 1980 through 1981. It guaranteed minimum and maximum salary raises between 13 percent and 16 percent the first year and 11 percent and 15 percent the second year, with provisions for inflation. It was signed by the CCOO and the UGT, but the CCOO rejected it. According to a CCOO spokesman, the union felt that "the accord offered too much salary moderation with not enough guarantees in return."

The new accord promises even more salary moderation, with demands being held to between 9 and 11 percent raises. The government also signed the ANE and promised to maintain to the end of this year the same number of salaried employees as in June, 1981, when the ANE was signed.

### Promises Discounted

Neither the two unions nor the CCOO believes that the government is capable of living up to this promise. "From the beginning, we didn't think this was possible. We clearly stated that it is the government that makes this engage-

Today's young new economists of democracy maintain that there was no link between Spain's earlier 'economic miracle' and Franco's rule, that it was purely a historical coincidence — perhaps also linked to the general recovery going on in the rest of Europe.

## PERSPECTIVE

MADRID — Economic "oldtimers" in Spain — the men who made the economic decisions and ran the economic ministries under Franco — tend to be "leaving on a trip this very afternoon" or "booked solid with conferences for the next two weeks" or simply "convinced that anything I had to say would no longer be of interest" when approached to talk about their personal experience and views of the economic policies of those years.

"They never give you a flat 'no' but they really don't want to talk about it; of course, there's no danger in it for them and no real shame, either — everybody here knows exactly what positions they held and what went on. We all lived through it, too," said one long-time observer of the Madrid business and financial scene.

Fortunately for those interested in economic perspective, there exists a whole new breed of articulate, intelligent younger economists who, having started their careers in the 1960s and '70s — working in junior positions in economic ministries here or in the OECD in Paris or in bank offices abroad — have risen to roles of significant importance in Spain's new economy under a democratic government. Most of them have reflected at length on the differences between Spanish economic policies "then" and "now" and seem eager to discuss them.

### Historical Coincidence

The first point many of them stress is their belief that the coincidence of the dictatorial Franco regime with a flourishing, expanding economy — the "Spanish economic miracle" of the '60s — and of the post-Franco democracy with economic problems such as inflation, high unemployment and a negative balance of payments — were just that, historical coincidence.

"Two factors especially, coincided to produce the great development process of the 1960s," said Luis Alcáide, an economist with the Bank of Spain who worked in the Commerce Ministry in the '60s and '70s. They were the liberalization of the Spanish economy and the general growth of the European economy, only acting together could they have the powerful effect they did.

"Portugal, for example, was unable to take advantage of European growth because it lacked economic liberalization."

Spain's "liberalization" at that point, he and others are quick to point out, was a relative matter; economic liberalization as most of the world understands it has been carried out since the death of Franco in November, 1975.

In light of current problems, then, in the wake of the oil crisis, with unemployment and inflation and slow growth — the international rule — what would Spain's economic situation be if the Franco era were still continuing?

### Prosperity of the '60s

"If Franco were in power now, under today's difficult international economic conditions, I believe we would have the same economic problems we have now, except that they would be worse, because the economy would still be too regulated," Mr. Alcáide said.

Pondering the same question, Luis Angel Lerena, director of economic studies at the Banco de Bilbao, concluded: "It is impossible for me to imagine that the Franco government could have stayed in power given the new international economic situation. I think it would have been brought down by it, since one of the main things that kept Franco in power was the economic prosperity of the '60s."

The Franco government went on so long — from the end of the civil war in 1939 until Franco's death in 1975 — that, not surprisingly, it passed through several distinct phases of economic policy. The first period, from 1939 to 1950, was basically a time of reconstruction of war damage and of trying to feed the Spanish people, both tasks complicated by the government's political isolation. But the idea of industrialization was important, too, from 1939, to meet the goal of autarchy, or economic self-sufficiency, that was popular among Fascists at the time.

The National Industry Institute was founded that very year to be "the weapon of Spanish industrialization" as a banker described it.

Between 1950 and 1953 came a new period, in which major enterprises like the SEAT automobile works were set up. Development accelerated — still based on substituting Spanish goods for imports rather than producing exports — and the political regime started to make overtures to the outside world.

### Rapid Growth

In 1953, the United States recognized the Franco regime, and in 1955 Spain entered the United Nations. Domestic growth continued at a rapid pace until a balance of payments crisis in 1959.

"There was no money left to pay for imports and Spanish reserves were exhausted; the dream of self-sufficiency proved impossible to fulfill," said Jose Luis Leal, an economic adviser in the Banco de Vizcaya, who was Spain's economic minister in 1979 and 1980.

New directions were taken: a stabilization program was adopted and in a cabinet reshuffle, old-line Falangist ministers were replaced by technocrats.

ment," said Mr. de Pedrosa. "It is not that we do not wish it, but we did not think it was possible for us to take this responsibility."

"It is the point [of the ANE] most difficult to fulfill," said Hector Maravall of the CCOO. Mr. Rodríguez Miranda acknowledges that 330,000 jobs will have to be created to maintain the employment level but he claims that 15,000 public works jobs are being created this year and that 400,000 jobs are being created in the private sector.

The government also considers restructuring industry to be a major priority. Under Franco, industry was only production-oriented and gave little thought to import-export cost competitiveness. Many Spanish industries are considered overstaffed, which is particularly troubling with the approach of entry into the European Economic Community and an accompanying removal of protective tariffs.

"We think it is better to keep 60 to 70 percent of the jobs safe than to lose 100 percent," said Mr. Rodríguez Miranda. In 1981, with government encouragement, 70,000 jobs were eliminated by restructuring. The unions accept the necessity of this restructuring process.

Mr. Rodríguez Miranda pointed out, however, that the national budget has \$3 billion earmarked for labor. The minister intends to create between 100,000 and

"With the arrival of the new ministers, the country began to be opened," Mr. Leal said. "The government developed tourism and tried to modernize the economy. It reduced protectionism and most important of all, created an industry."

Mr. Leal listed the most significant effects of the development boom of the '60s as industrialization and the development of tourism.

"The 'developmentalist' — in Spanish, 'desarrollista' — policy was quite disorderly, though, with the government investing heavily in capital-absorbing industries like steel and shipbuilding but not trying to foresee changes there; there was no concern either over the problems rapid growth would bring to our cities," Mr. Leal said.

"Also, nothing was changed in our banking and financial sectors, which in many other countries were modernized and liberalized in the '60s."

Luis Angel Lerena commented, "With the growing economy in the '60s, our problems seemed to be minor. We had a tremendous growth in per capita income — 10 years. Spain changed from being agricultural to almost developed in that time."

### Solved by Migration

"We had no unemployment; migration to even more prosperous countries of Europe took care of our workers. I think we could not see real problems, like our too great dependence on energy from abroad, because they were hidden by prosperity."

The international economy expanded and the Spanish economy thrived. As several Spanish economists put it, "the Franco government was able to profit politically from Spain's prosperity." None, however, suggested that Franco was very personally involved in economic policy.

Spain took no immediate economic action to deal with the 1973 rise in oil prices, so the effects of the crisis were felt later than in the rest of Europe. To appease labor, in fact — with unions still illegal — the Franco government continued to grant wage increases that outpaced the cost of living when other nations' economies were in recession.

The problem was that the Spanish economy had outgrown Spanish institutions," said Eduardo Mediag, president of VISA Spain and deputy director of the economics department at the OECD from 1962 to 1974.

"Big economic growth was compatible with the Franco regime but when the oil crisis hit, the rigid financial system and closed economy were incapable of adjusting to the new situation."

"It is not generally remembered that in the last year of Franco's life, the economy grew at only 1 percent," he said.

After Franco's death at the end of 1975, King Juan Carlos I and his first governments postponed dealing with economic problems, according to priority to political problems until after the first democratic elections in Spain in 40 years in June, 1977. At that point, a process of economic readjustment could no longer be put off — Spain was plagued by slow growth, rising unemployment and an annual inflation rate approaching 30 percent.

### Recovery Plan

The Moncloa Agreement, signed by all political parties on Oct. 25, 1977, and ratified by the parliament soon after, provided a basic recovery plan for the economy, involving pledges of wage restraint and more economic control to parliament. More recently, in the National Agreement on Employment, or ANE, signed in June, 1981, the government employers' association and the nation's two largest labor unions reached a consensus on making some cut in real wages for 1982.

The pact was evaluated to increase external competitiveness in 1977. That operation was coupled with tax reforms that economists say have significantly reduced social injustice in a country where there was previously no real income tax and the rich paid the same indirect taxes as the poor.

The banking system has been liberalized, financial reforms have been carried out. Dependence on imported energy has been reduced. But the economic adjustment begun in 1977 is still continuing; growth is slow and consumer prices rose by almost 15 percent last year.

Jose Luis Leal acknowledged that the Spanish people were getting tired of the long adjustment process, but he said he felt there was reason for real satisfaction over Spain's recent economic achievements.

"It is my impression that in 1977, this society was still hesitating between a Third World and a European system and that we could easily have swung into a Third World economy," he said. "Fortunately, inflation was brought under control and the trade unions emerged as responsible."

"I think the Spanish economy is in better shape than it was 10 years ago. Enterprises are more solid, better organized and better managed than a decade ago. The economic system is more mature, more complex."

"This whole society, in my view, has matured a lot and gained in depth and in quality, which is reflected in the Spanish theater, in painting and in music as well as in the economic world."

—BARBARA BELL

## OECD Report

(Continued from Page 95)

sion of public expenditures on health, education, welfare and infrastructure, with the trend toward regional and local autonomy adding to public financing requirements, the study says.

The share of public expenditures going to basic public services and investment should be increased, while handouts to uncompetitive enterprises should be cut back, all the more so that this indirectly hits dynamic and efficient firms, in terms of availability of credit and interest rates.

Spain's two fundamental problems, says the OECD, can be summarized as how to obtain a sustainable, not merely temporary upturn of economic activity without accelerating inflation, and how to generate the maximum number of jobs with a GDP "unlikely to grow very fast over the next few years."

—VANVA WALKER-LEIGH

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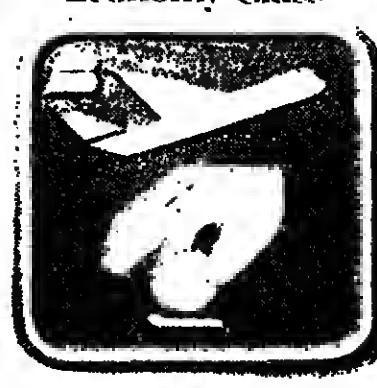
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## Tourism Stable Despite Terrorism's Inroads

MADRID — Take a nation with an important tourism industry. Add an armed autonomy group that periodically sets off bombs, a food-poisoning epidemic that kills more than 250 people and hospitalizes 20,000. Add to that a dramatic coup d'état attempt with congress held at gun point and rebel tanks rolling down the streets of a provincial capital. Logically, this is the formula for a tourism industry in a deep crisis. But this was Spain in 1981, and the tourism industry, which accounts for 7.5 percent of the gross national product, had a miraculously good year.

Even in the Basque provinces where political violence is notorious, tourism, which had been slackening off in recent years, was stable and the festival in San Sebastian was unusually successful. "Europeans are used to terrorists," said a spokesman for the secretary of state for tourism.

Last year, Spain received more than 40 million visitors, which is 5.5 percent more than the year before and almost 3 million people more than the native population. The fact that the tourists came in spite of scandals and crisis demonstrates the solidity of the trade.

Tourism has risen dramatically in Spain since 1950. While there are 11 times as many tourists in the world generating 44 times as much money today as 30 years ago, Spain receives 50 times more tourists and brings in 400 times more money than in 1950.

Tourism has become an important and dependably favorable factor in the Spanish economy. It brings in needed foreign currencies and a sum of money that compensates for more than half of the yearly balance-of-trade deficit. It employs eight percent of the working population (more than one million jobs are created directly or indirectly by tourism).

Unfortunately, a great deal of tourism employment is only seasonal. August accounts for 40 percent of annual tourism. July is also disproportionately busy. The government would like to promote more even year-round tourism. But a great many tourists are northern Europeans looking for beaches and sun. The beach areas of the Mediterranean coast, the Balearic islands and the Canary Islands receive 93 percent of the hotel nights.

The Spanish government spends \$20 million every year on promoting tourism. A great deal of this is spent in Europe on their leading customers. The largest national group of visitors (not necessarily tourists) are French. The Portuguese are second, followed by West Germans and British.

But the government is now making a promotional effort to draw tourists from the United States, Japan, Brazil and Mexico. These people have beaches closer to home and so the Spanish must try to sell a different Spain — one of cities and culture and good food. They have been particularly successful with some of the more famous festivals such as Pamplona's San Fermín and Valencia's Las Fallas.

This year there are fears that the season will be damaged by British resentment of Spain's pro-Argentine sentiments. But the Spanish tourist industry seems certain to counter this problem as they have others. And the estimated 300,000 visitors that the World Soccer Cup will bring should help.

— MARK J. KURLANSKY

## SPAIN THE ECONOMY

## EEC Official Urges Rapid Solution To Problems Delaying Europe Link

BRUSSELS — "I am convinced that the moment has come to reach a solution because I understand that public opinion could not comprehend dragging it out any longer," Lorenzo Natali said about negotiations for Spanish entry into the European Economic Community. Mr. Natali is the European commissioner charged with enlarging the EEC.

For the EEC as well as for many people in Spain, the desire for Spanish entry is largely a political one. Therefore, the attempted military coup in Spain last year gave Europeans added incentive to expedite negotiations. Mr. Natali speaks of a "new dawn" in the talks with Spain this year. "The Spanish European option," he said, "is a political option — a democratic option — and I believe that on the side of the Community there has been an awareness of the necessity to give a signal."

But for reasons that are equally political, Mr. Natali is finding it difficult to give much more than a signal. The internal economic consequences of Spanish entry have been widely debated in the last three years of negotiations. Spain will increase total EEC farmland by at least 27 percent and overburden the European market in Mediterranean products. The entry of Spain and Portugal will create an estimated olive oil surplus of

200,000 tons, mainly from Spain.

The EEC is exhausting its financial resources on the Common Agricultural Policy (CAP), a system of farm subsidies that uses almost three-quarters of the budget. Member countries, particularly France, believe that they cannot afford to take on the additional agriculture and costly surpluses from Spain until the CAP has been revised.

### Mediterranean Area

In the course of Spanish negotiations, another, perhaps more complicated, problem has become apparent. Mr. Natali said, "The problem [of agriculture] is not only a problem of the Community. It is a problem with the entire Mediterranean basin."

In the decade since the beginning of the oil crisis, the Common Market has entered into a series of politically motivated bilateral trade agreements with Mediterranean countries such as Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, Lebanon and Israel. These countries have an agricultural production very similar to Spain and are beginning to develop industry along a similar pattern. After Spanish entry creates a surplus in these products, the EEC will not only stop importing from the rest of the Mediterranean but the normal practice would be to subsidize export to third markets.

Mr. Natali is acutely aware of the repercussions this would have in these countries, which in many cases have developed their production for the European market. "We risk totally destabilizing the Tunisian economy," he said, citing one of the most severe examples. "We have created privileged ties which we must maintain because a change in commercial relations in these countries, which are now directed toward Europe — toward the Community — a change toward, for example, the countries of Comecon [the Soviet-dominated East European trading bloc] would create a problem situation that would be fairly political."

The search for a way to maintain these markets after Spanish entry is creating tensions with the United States. If Spain joins the Common Market, which was in part created to compete with the United States, the EEC will at last have achieved a larger gross product than the United States. Americans are growing increasingly concerned by the subsidy trade practices of this expanding European bloc.

Mr. Natali believes that the Common Market must protect trade with Mediterranean countries. "The United States has to understand that this operation is politically profitable," he said. "The United States is attacking

Common Agricultural Policy and attacking the preferential agreements we have made with Mediterranean countries. I find that it is an economically and politically contradictory position because I believe that it is in our common interest that the situation in the Mediterranean is kept stable," he added.

As for Spain entering as planned in January, 1984, Mr. Natali would only say, "We think there is the possibility to keep the date." The European Commission wants Spain and Portugal to enter together. While Portugal does not present the economic and political problems that Spain does because it is much smaller, an EEC source said that Portuguese negotiations were bogging down in "technical problems" with the Portuguese negotiators.

With or without Portugal, it seems certain that Spanish negotiations will not be completed until agreements are reached with third countries and internal differences on agriculture and fishing policy are resolved. The internal differences seem as far from a solution today as they did three years ago. Since it would take approximately a year to ratify a final Spanish agreement, it is quite possible that the entry goal will soon be changed again — this time to 1985.

— MARK J. KURLANSKY

## Progress In Cutting Inflation

(Continued from Page 9S)

payments currently amount to almost 3 percent of the gross national product.

Mr. Garcia Diaz's ministry is just beginning to study Spain's underground economy — people working, producing, buying and selling totally outside the recorded economy. Spaniards are notorious by distrustful of government structures, and many observers believe that there is a huge illegal economy.

"By definition, you cannot know how large anything underground is," Mr. Garcia Diaz said. "I think it is not as big as some people think, but I think it could tend to increase." He thinks that the high costs of employer payments to social security and the vast numbers of people collecting unemployment compensation were factors that would spur this increase. Another major concern is high U.S. interest rates, which he claimed force Spain to keep its own rates too high. "We are stopping internal recovery," he said.

Mr. Garcia Diaz also expressed concern about the strength of the dollar and the fluctuations in the international money market, and called for an international effort to stabilize currencies. "Our importers and exporters are always a bit lost as to what their profits and costs in pesetas will be." He does not want a fixed rate of exchange system but rather a multilateral effort to lessen fluctuation. "I do not see this kind of cooperation as being too easy but what is clear is that we are suffering as a result of this high interest rate policy in the U.S."

On the other hand, Mr. Garcia Diaz asserted that he did not consider the negative balance of payments to be a problem because he expects it to diminish even though it is increasing bilaterally with the United States. He cited areas that trade in dollars, such as Latin America and the Middle East, as rapid growth areas. Black Africa and Southeast Asia were mentioned as regions where Spanish exports had been unknown and were beginning to expand.

On the question of Third World development, Mr. Garcia Diaz said, "We feel that the world economy cannot be healthy if we do not make improvements in underdeveloped countries."

## Optimistic View Prevails at the Bank of Spain

MADRID — The governor of the Bank of Spain, Jose Ramon Alvarez Rendueles does not share certain gloomy assessments made in private banking circles about Spain's external finances.

"At \$25 billion, with foreign exchange reserves of \$14 billion, our external debt is not a grave problem," he said in an interview.

"Our debt has grown to finance our balance of payments deficit, now at \$5 billion. As this declines, the rate of growth of our external debt will fall. The current balance has shown considerable improvement in the first three months of 1982, due to lower oil imports (one

third of our import bill) and increased exports," he explained.

"We aim to lower the deficit by \$1 to \$1.5 billion in 1982, and I am confident it should reach \$3.5 billion to \$4 billion by the end of the year. I see our current deficit in 1985 as around \$1 billion — a natural deficit which is manageable and can be financed. There is no reason for us to aim at a surplus."

The peseta can maintain its value in relation to the EEC average, Mr. Alvarez thought, and is at present a bit undervalued in relation to the dollar. "I see the equilibrium rate as between 95 to 100 pesetas to the dollar, but not either below 95 or above 105 pesetas."

If Spain enters the European Community within the next 18 months as planned, Mr. Alvarez sees no reason for Spain to join the European Monetary System right away. "If your situation in terms of inflation rates and other variables is different to other EEC countries, this would be a bit suicidal. I don't see EMS entry as a major issue."

Spain's commitment to introduce a value added tax upon entry to EEC, will have an inflationary impact, he admitted "though I hope inflation will be below 10 percent when it is introduced. The major problem with the value added tax will be its administration by the treasury and business."

However, Mr. Alvarez warned that if the present government — or its successors after the forth-

coming legislative elections — went in for a strongly expansionary policy, "then we would have problems. If our inflation rate, public sector deficit and debt all grow, then the peseta would come under attack. As we favor a floating currency, it would float downwards."

Emphasizing he was not a politician, but a technician, Mr. Alvarez thought that should the Spanish Socialist party win in the next elections, it would not introduce a strongly expansionary policy because of objective constraints inherent in the Spanish economic situation.

"In my view, a Socialist policy would be a good deal less expansionary than that of the present French government."

— VANYA WALKER-LEIGH

## EEC Talks: Tone Fresh

(Continued from Page 9S)

Community's internal farm policy can continue to block a Spanish agreement. And after years of arguing, the EEC still has no common fishing policy and therefore Spain, with a larger fleet than any of the members, has been unable to move talks in this sector.

Spanish industries such as steel have been painfully preparing for entry — cutting production and eliminating thousands of jobs. Many Spanish businessmen and labor spokesmen agree that the restructuring would be necessary even without EEC entry. But as negotiations drag on, businessmen in Spain, originally strongly favor-

able, are becoming critical of EEC entry.

The agreed target date for Spanish entry is January, 1984, which is a postponement of the 1983 date. Another postponement would be somewhat embarrassing, but certain Spanish economic sectors such as steel have indicated that they would not be ready by 1984. Brussels is also far from ready.

With necessary optimism, the government claims to expect to sign the treaty by January, 1984. Mr. Bassols said, "Impatience is changing in private enterprise to alarm and a certain sense of the risk of what will happen when we enter."

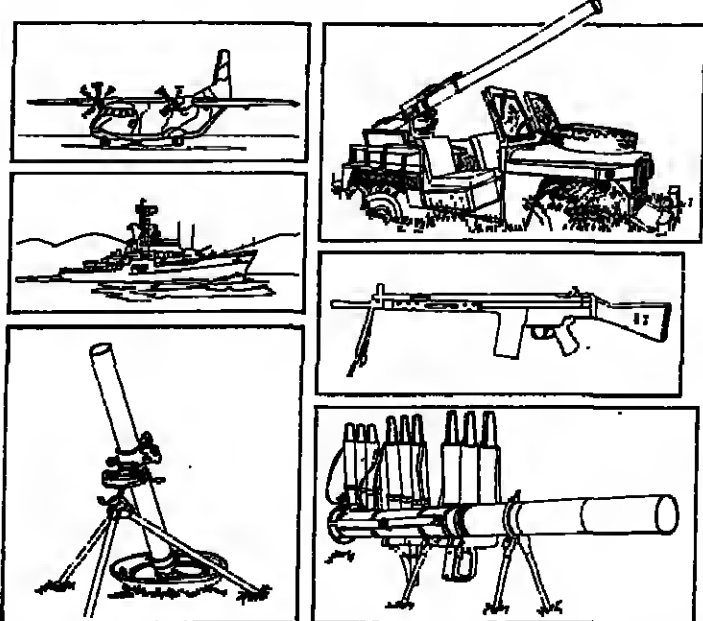
— MARK J. KURLANSKY

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# Debate Developing on Major Role of Foreign Capital in Industry and Business

**MADRID** — "Quien manda en España?" (Who's in charge in Spain?) is one of the questions in press, political and business circles to a spate of figures released in recent years about the role of foreign investment in Spanish industry.

A 1980 survey by the Ministry of Economy and Commerce, using 1977 data, shows that while foreign investment is less than 3 percent of total Spanish investment, the share of foreign-owned capital in the total capital of key sectors is 59 percent in automobiles, 42 percent in leasing and in soaps and detergents, 36 percent in other chemicals, 32 percent in plastics, 30 percent in pharmaceuticals, 27 percent in household electrical goods, 26 percent in insurance and metal foundry, 20 percent in mining, 17 percent in glass and 15 percent in food products.

The survey also indicated that companies with foreign majority control had far higher average paid-up capital, sales, workforce, exports and imports than companies with no foreign capital. Economic consultant Dr. Santos Cipa Eliz has estimated that in 1979, Spanish operations of foreign multinational companies accounted for around 30 percent of total value added, exports, and investments in manufacturing industry and 13 percent of employment.

According to a study by the economic review *Actualidad Económica*, 33 percent of the 400 billion pesetas (\$4 billion) invested in Spanish industry between 1960 and 1980

(more than half since 1977) came from United States firms with a good proportion of the 14.5 percent from Switzerland, 2 percent each from Liechtenstein and Luxembourg also attributed to American operations overseas. Other leading investors in this total were German (11.3 percent), French (8.6 percent), British (6.5 percent) and Dutch (6 percent) interests.

## Rigorous Controls

But the Spanish government keeps a close track on what foreign investors are doing. Patrick Byrne, manager of Ford's Spanish operations, said in an interview "the administration has very rigorous controls over everything. Everything has to be negotiated with them. Though once they see a deal they go after it and are extremely cooperative. On major issues they make decisions incisively and speedily. But on matters they might consider on the periphery of our business, but we consider more fundamental, there can be reluctance, footdragging. Negotiations are extremely intricate."

British barrister Ian Blackshaw, a partner in the Gomez Acebo y Pombo international law firm in Madrid, adds that government officials do a thorough vetting job on each application for foreign investment. "They want to know all about the company and don't accept tax haven registrations without question. They have to be convinced that a project that applicants plan in Spain is commercially sound and will bring in new know-how and technology and they re-

quire firm undertaking on job creation, imports, exports, purchase of the maximum amount of finished products and raw materials within Spain. If, once the operation has been approved and initiated, the investor wants to diverge from undertakings or can't carry them out, the government must be informed," he said.

The nationalization of a number of major French industrial companies by the new Socialist government in France has raised fears that development in some Spanish sectors where these firms have made large investments, such as St. Gobain in glass, will be influenced by decisions taken in the French industry ministry.

## Company Nationalization

But the Director for Foreign Transactions at the Ministry of Economy and Commerce, Juan Ignacio Comin, pointed out that under Spanish law, nationalization of a company with operations in Spain automatically entails cancellation of the previously granted investment authorization.

"We have asked the French firms involved to submit economic and accounting data by June 19th. We will review the situation of companies on a case by case basis. Either the Spanish government will decide to acquire part of these companies' holdings, or will ask the French government to cede part or all of them to a third party. Once these arrangements are completed the investments will be re-authorized," he said in an interview.

"Spain continues to need foreign investment, to complement internal savings, bring in technology, strengthen its export potential and gear up our industry to meet the challenge of EEC membership," Mr. Comin added.

According to official statistics, net foreign investment in Spain rose from 100 billion pesetas (\$1,497 million) in 1979, to 108 billion pesetas in 1980 and 168 billion pesetas in 1981, though the share of direct investment in 1981 in the total fell from 66 percent to 50 percent. Investments in the first three months of 1982, totalling 28.8 billion pesetas are twice those in the same period last year.

Since 1979, large scale investments have been made in Spain by a number of major firms including General Motors, Gonzalez Byass, Barclay's Bank, Robert Bosch, Cadbury, Schweppes, Renault, Philips, Pirelli, Lurgi Chemicals and Nissan.

## Continued Interest

Mr. Comin attributes continued investor interest to relatively lower real labor costs, a good level of skills, Spain's economic growth prospects and mooted entry into the European Community. "A number of firms, which have encountered difficulties in their Latin American operations, have relocated them to Spain," he said.

The ministry intends to step up efforts to attract new investors by inviting groups of foreign industrialists to Spain and requesting commercial counsellors in Spanish embassies

to actively seek out locally based potential investors. In order to be able to respond rapidly to queries from diplomats abroad, the ministry is organizing an information service backed by a data bank and a system of rapid communications with key officials in other government bodies.

Talks may also be held with the 29 foreign banks, recently established in Spain, so they can inform their foreign clients about investment opportunities.

## Foreign Investors

Some business and press commentators point out that the attempted coup of the last year, the stagnating internal market and uncertainties as to what the economic policy of the Socialists would be if they won the forthcoming legislative elections has given a number of foreign investors cold feet. Only 20 percent of last year's direct investments were actually new operations they point out, adding that a number of major deals have fallen through. Neither Toyota nor Nissan could be persuaded to take over Fiat's stake in the loss-making, state-controlled vehicle manufacturer, SEAT. Guardian Industries Corporation decided to drop out of a 3.9 billion pesetas deal with Vidrieras de Llodio and International Harvester decided to drop out of a 35 percent stake in the state-controlled truck and bus company, ENASA. Monsanto, Teijin and Woolworth have also pulled out, and there are rumors that a number of major foreign investors with big losses in Spanish operations may follow suit.

Many foreign investors, these commentators say, gambled on Spain entering the EEC by 1983, but holdups in the negotiations make this unlikely. Labor costs are now nearing levels in other countries, while per head productivity is lower. The continuing fall in the peseta against the dollar (30 percent in 1981) also means added import costs of a series of inputs, not only oil.

But these comments are countered by signs of investor interest in Spain from new quarters. Canadian and Australian firms seem ready to play a considerable role in developing minerals, while Arab capital, until now limited to real estate and tourism, is reportedly beginning to seek industrial outlets.

Nissan's recent boost to 55 percent of its 35 percent stake in Motor Iberica, acquired from Massey Ferguson in 1980, has been identified by the Japanese embassy as the first of a series of big operations, involving firms such as Yamaha, Suzuki and the Mitsui Bank. Several Japanese firms already have small stakes in Spain — Nishio, Matsushita, YKK, Ishitawajima and Fujitsu.

British business people also indicate that the removal of the U.K. exchange controls two years ago, plus the arrival of Barclay's bank, have been accompanied by increased interest by British firms in setting up Spanish operations. Highly visible in the chemicals sector, British investment is considered as "under-represented" in the rest of industry.

— VANYA WALKER-LEIGH

## INI: Big Problems

**MADRID** — Established in 1941, the Instituto Nacional de Industria is Spain's largest industrial group, ranking in Western Europe's top 20.

By 1980, the INI employed a work force of more than 250,000 people, accounted for 14 percent of industrial exports, 8 percent of industrial gross domestic product and 28 percent of industrial investments, and had sales of more than \$15 billion. But it also has been Spain's top money loser — with losses of 85 billion pesetas in 1981, after losses of 100 billion pesetas in 1980, even though 1981 sales rose by 30 percent.

## Present Stakes

INI's chairman, Carlos Bustelo (a former minister of industry appointed in April, 1981) explained that INI's present stakes in about 70 companies, giving it indirect participation in 400 others, is an inheritance that is difficult to live with.

"For decades, INI was not only the instrument of a highly protectionist, inward-looking industrialization policy, but in the 1960s and 1970s became an emergency ward for failing private companies. Instead of being allowed to go bankrupt, they were brought into the public sector. The INI had to go on 'crawling' jobs, making invest-

ments, while shouldering big losses on uncompetitive activities, and borrowing extensively on the market to meet all its commitments. If it had been a private group, it would have gone broke some time ago."

In September, 1981, however, the government agreed to a sweeping financial reorganization of INI, which included taking over 120 billion pesetas of long-term debt, involving huge savings in financial costs.

"Now at least we have room to maneuver," Mr. Bustelo said, "although not as much as we need. The bulk of our losses are still due

to the bad results of nine ailing, inefficient companies. But we plan to break even by 1985."

The INI introduced a five-year rolling plan system in 1979 to restructure activities, tighten management and acquire needed technology.

The \$16-billion 1982-1986 capital investment plan has allocated \$3 billion to ailing companies in the steel and shipbuilding sectors, now coming under industrial reconversion plans, and to vehicles. A number of loss-making units are on sale.

"Fifty percent of INI's capital investment plan is allocated to the

energy and mineral resources sector," Mr. Bustelo pointed out. "This includes building coal-fired and nuclear generating stations, mining uranium, developing our coal resources, seeking stakes in foreign mines. Our recent \$45-million purchase of a 10-percent stake in Ashland Coal U.S. will be followed by further purchases emerging from on-going coal producers with Australia, South Africa, China and the United States."

(The INI is no longer active in hydrocarbons, as the various oil exploration and refining companies that it controlled have been regrouped into a separate body. But through its solar company, Inisolar, INI has started to play a leading role in developing solar energy in Spain, and intends to expand its activities in other renewables).

— VANYA WALKER-LEIGH

## Foreign Trade by Geographical Area

Billion pesetas												
		1977	1978	1979	1980	1981	1977	1978	1979	1980	1981	
		1. Imports, cif					2. Exports, fob					
EEC, total		461.4	496.3	606.2	755.5	861.9	358.8	457.8	586.2	739.6	812.3	
of which:												
United Kingdom		71.3	77.6	87.8	115.1	132.9	49.0	58.7	87.6	105.3	130.6	
France		113.1	130.1	164.7	202.4	237.6	123.6	166.4	197.0	246.6	270.6	
Germany		136.2	142.4	163.2	200.8	241.5	82.0	106.8	126.2	152.9	163.3	
Italy		68.2	67.5	90.1	120.9	118.4	39.4	49.9	78.8	116.7	108.0	
COMECON		26.3	29.0	37.9	55.2	78.2	21.7	27.1	36.7	39.1	73.1	
Other European countries		74.3	78.9	98.8	112.4	133.7	71.9	95.1	127.6	143.6	153.5	
United States		162.0	190.1	211.7	318.8	412.4	76.1	92.8	85.1	79.4	126.9	
Canada		11.7	11.5	15.9	19.4	20.6	7.6	8.8	10.4	10.6	16.6	
Other American countries		121.9	119.3	152.5	255.0	354.3	79.4	96.0	136.7	159.1	197.7	
Japan		43.0	40.1	39.9	60.5	79.4	8.9	15.2	24.6	19.2	30.0	
Near-East		257.7	250.6	288.1	530.8	610.1	24.2	45.6	49.8	100.1	145.9	
Rest of the world		192.3	215.6	253.0	343.1	419.8	126.8	163.1	188.0	218.5	332.4	
Total		1 350.5	1 431.6	1 704.0	2 450.7	2 970.4	775.3	1 001.6	1 221.2	1 493.2	1 888.4	

Source: Ministry of Economy and Commerce.

Source: Ministry of Economy and Commerce.

## Industrialists' Federation Opposes Policy of Opposition, Government

**MADRID** — Spain's industrialists' federation, the *Confederación Española Organizaciones Empresariales* (CEOE), is sharply critical of government economic policy, but much more violently opposed to what the Socialist Party has to offer.

In the recent regional elections in Andalusia, CEOE organized dozens of meetings with local business groups, as well as a major media advertising campaign to explain its views of what socialism would mean for Spain. Following a complaint lodged by the Socialist Party, its campaign was temporarily suspended by the electoral board, but then allowed to continue by a subsequent court ruling.

The landslide victory of the Socialists in Andalusia on May 23, has generated major gloom amongst CEOE members, who fear this may foreshadow a victory at the forthcoming national legislative elections.

CEOE's President, Carlos Ferrer Salat, explained in an interview that "The Socialist alternative is to increase the public sector deficit, increase inflation and controls. Some members of the party say that they are in favor of nationalizing certain industries, others say they are not." Mr. Ferrer remained wholly skeptical of the Socialist Party's recent extensive efforts to win business confidence in dozens of informal meetings with bankers and industrialists. The official economic program of the Socialist Party is still to be issued and is supposed to emerge this month, he pointed out.

Moreover, Mr. Ferrer does not believe public statements by the Socialists that they would not form a government with the Spanish Communist Party. "They govern together at the municipal level, and in the *Extremadura* region. The Socialists said they would not govern with the Communists in Asturias,

but went back on that. On the other hand, the Communist Party has always declared that it would support and govern with a socialist government."

The business community would like to see the present beleaguered governing party, the Union of the Democratic Center Party, form a "natural alliance" with the right wing Popular Alliance party, whose views on economic management are a good deal more "Reagonomic" than UCD's.

Mr. Ferrer is sharply critical of UCD's policy in allowing a huge growth in public sector deficits, allowing strong wage increases and maintaining high tax and financial burdens on business. Failure to reform the social security system means that employers contribute 71 percent of total operating costs, compared to the OECD average of 41 percent.

The government has also failed to provide adequate mechanisms for long-term financing of investment, on to follow through on commitments to make it possible for companies to introduce a variety of more flexible employment contracts.

"Our competitiveness and ability to create jobs has been gravely undermined as a result. And the government's concession in the EEC negotiations to introduce a value added tax immediately upon entry, will mean immediate additional inflation of 4 percent, and problems for hundreds of businesses. Present EEC members did not have to take this step on joining," Mr. Ferrer said.

CEOE economists have drawn up a sector by sector survey of Spanish industry, and conclude that a transitional phase of 7 to 10 years is essential for most companies to be able to sustain competition from other EEC companies.

— VANYA WALKER-LEIGH

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# Regulation and Limits of Foreign Investment

A Phasing-Out Period on Current Rules Should Follow EEC Membership

MADRID — Spanish foreign investment rules, laid down in a 1974 law and a series of subsequent decrees, were simplified and liberalized by a decree in 1981.

But the booklets and forms supplied by the *Dirección General de Transacciones Exteriores* (General Directorate of External Transactions) of the Ministry of Economy and Commerce, make sufficiently

complex reading for most would-be investors to decide to put their plans in the hands of experienced Spanish lawyers.

While the underlying philosophy governing foreign business investment is described by government officials as liberal and non-discriminatory, there is a series of rules and limitations, with provisions for government authorizations.

The authorization procedures will have to go when Spain becomes a member of the European Community, and a number of rules and restrictions will have to be modified. However, there may be a phasing in period, and certain limitations will remain, as allowed under the Treaty of Rome for reasons of national security or public order.

Some key aspects of rules are identified here.

The following are allowed to invest in Spain: Foreign individuals, foreign companies, Spanish nationals residing abroad, the International Finance Corporation (a sister institution to the International Monetary Fund) and the World Bank.

A number of sectors are prohibited to foreign investors: national defense, public water supplies, local broadcasting, newspapers and agencies, production and processing of films. Other publishing activities are also off-limits, except to Portuguese and Latin American nationals who are allowed stakes of up to 50 percent.

Foreign participation in the equity of Spanish companies is limited to 49 percent in mining, 25 percent in air transport and casinos, 40 percent in shipping and oil refineries and 15 percent in newly established banks.

## 100% Stakes

Stakes of up to 100 percent are allowed in existing banks, insurance, contracting of public works and services, exploration and exploitation of hydrocarbons and, in each case subject to preconditions established by the Spanish government.

Stakes of less than 50 percent in new or existing Spanish companies, or branches of authorization, must be registered with the *Registro de Inversiones Exteriores* (register of foreign investments) based at the Ministry of Economy and Commerce.

Stakes of over 50 percent, but worth under 25 million pesetas (\$250,000) must be filed on an "investment proposal" form with the directorate of foreign transactions, for verification. If the investor hears nothing within 30 working days, the investment can be considered as approved, but must be completed within six months. Investments of this size are subject to the authorization procedure described here for the following sectors: national defense, public services, non-basic chemicals, electronics, computers and sectors for which an industrial reconversion plan has been drawn up by the government.

## Manufactured Goods

Also subject to verification procedures is the establishment of a company making capital goods not manufactured in Spain.

Investments of over 25 million pesetas, representing more than 50 percent of the capital of a new or existing Spanish company, are subject to special authorizations from the General Directorate of Foreign Transactions; for investments up to 250 million pesetas (\$2.5 million) from the Ministry of Economy and Commerce; for investments between 250 million and 500 million pesetas (\$2.5 million) from the Council of Ministers. All investments of over 50 million pesetas, involving a majority stake, must first be reviewed by the foreign investment board, comprising representatives of key government ministries.

Authorization procedures have been speeded up since 1981, but foreign investors must give binding undertakings on financial, foreign currency and employment aspects of their project.

Investors can form either a limited liability company or a joint stock company — the latter being favored by foreign investors.

Spanish companies with foreign stakes of under 25 percent can obtain domestic credit without limitation. Firms with foreign participation of over 25 percent are able to obtain national credit in pesetas up to a limit of five times the amount of their own financial resources, with additional credit in pesetas up to a limit of five times the amount of their own financial resources with additional credit given following the authorization of the DGTE. Foreign loans to Spanish companies, with or without foreign participation in their capital, require prior authorization from the bank of Spain.

## Permission for Loans

Branches of foreign firms, which are not subject to foreign investment authorization rules, must get DGTE permission for both internal and external loans, and are usually required to give undertakings when it is established that all financial needs will be met by the parent company. Joint ventures must also gain government approval.

Foreign investors qualify for a broad range of incentives established by the government to attract investment to underdeveloped regions, away from the major industrial poles of Madrid, Bilbao, Barcelona, Valencia and to sectors declared "of preferential interest." Incentives include forced expropriation of needed sites, tax holidays, duty-free import of necessary inputs, low-interest official credits and investment subsidies. State controlled regional development companies, SODIs (*Sociedades de Desarrollo Industrial*) are also prepared to take stakes in projects of interest to foreign investors, ceding their stakes to other holders after 2 to 3 years.

## Convertible Currency

Foreign investments must be made with foreign convertible currency, legally introduced from abroad through banking channels, and identified by a currency certificate issued by a Spanish bank, and must be registered with the Investments Registry of the Ministry of Commerce. This procedure allows the unlimited repatriation (after payment of taxes) of legally distributed profits and dividends, proceeds of sale of subscription rights to shares and securities and original capital invested as well as any reasonable capital gains made on disposal of investment.

—VANYA WALKER-LEIGH

# SPAIN

*'Setting the clock on time in the international monetary markets and forcing an appropriate financial and budgetary discipline with solid work on the underlying economic basis of both investment and exports, are the only answers...'*

## A RISKY CROSSROADS

By Juan G. de Madariaga

MADRID — The significant decline in the rate of inflation in the United States and the large interest rate differentials favoring the dollar versus the European currencies, has widened the gap of cost of money now prevailing between the United States and the European countries.

A major downward adjustment in oil consumption in the United States has been a substantial contribution to this development but there are other factors that have also induced this situation. One of them is that in the U.S. economic system, industry financing is less dependent on borrowed funds than in Europe.

Twenty years of socialism in the Europe have distorted some of the financial mechanisms governing the flow of funds such as interest rates in which money supply and interest levels are not always duly correlated. When market forces are kept dormant for a substantial period of time, it is very difficult to put them to work and politicians fall into the false belief that they can challenge market realities. For this reason, monetary policies now underway in the United States do not carry the same effect when applied in the European financial arena.

## Competitive Financial Structure

The inability to cope with the new highly competitive financial structure is creating additional turbulence in the European Monetary System. Most European countries have been incurring large deficits as the only way to escape from stagnation, but these large deficits contribute to more inflationary pressures.

Budget deficits are also a way to transfer resources from one holder to the other. It may reactivate the economy but it may also distort the financial functions from its normal operational pattern.

Spain is undergoing an adjustment of its financial system for which monetary authorities are promoting the creation of a more fluid capital market and a more flexible interest rate structure but it has to cope with the adverse European environment, where many countries are seriously involved in a defensive strategy of their economy.

How can Spain liberalize its economy at a time when France is looking for a protectionist umbrella under the EEC? Spain is unquestionably trying to open up a long closed-in financial market but at the same time it has to make a decision as to incorporating itself into the European Economic Community. Probably the answer to this dilemma lies in the fact that Spain should progressively enter the European Monetary System, finding the intermediate basis to exit from a severe isolation in today's fluctuation scheme and national exchange controls to a multinational monetary system.

In a gloomy panorama of an expected budget deficit of 800 billion pesetas, there are certain signs of improvement in the commercial area particularly in the trade balance. Most of Spain's external debt is on a floating rate basis whereas any prospect of a decline in interest rates could alleviate the Spanish situation. The recovery of output is in danger. The unemployment rate (15.39 percent) is still reaching new highs well above the European average of 9 percent of the labor force and still higher than Britain's 11.7 percent. Therefore, shifting policies should also be considered from creating jobs to fighting inflation.

Budget deficits leave little scope for fiscal stimulus in which selective monetary policies should be contemplated.

In this connection, Spain is not sufficiently integrated in international capital markets. Interest rates show a blatant discrepancy between foreign and domestic ones. Spain participates in the same struggle that European governments are engaged in — to lower interest rates to bolster their economy and to combat unemployment. This has to be conducted at the expense of subsidies, which obviously result in a depreciation of their currencies against the dollar. However, interest rates are high in Europe for indigenous reasons quite apart from U.S. influences. High government deficits are draining available domestic savings causing high interest rates and choking off needed business investments.

These deficits are also responsible, in Spain, for lagging economic performance and imposing the difficult choice between high interest rates and inflationary currency depreciation. A lowering of interest rates, without measures to reduce fiscal deficits, would entail renewed successive monetary growth and inflation as well as exchange rate weakness against the dollar. But, in all major industrial countries, there has been a substantial reduction of inflation as a result of these restricted monetary policies.

A major contributing factor has been the decline in oil prices. The large interest rate differentials favoring the dollar make up for the current account differences between the United States, Japan and Germany. Spain might benefit greatly from a global environment of lower oil prices and eventually less inflation and reduced interest rates.

## Significant Interest Saving

A substantial reduction in London Interbank Offered Rates, associated with the drop in oil prices, would mean a significant interest saving for Spain. The combination of these two factors plus a better export prospect would facilitate a better management of the external financing. This would also eventually contribute to a decline in the aggregate current account deficit, but in the final analysis, current account performance could only be improved through reduced consumption and increased exports and investment. This would also enhance the prospects for non-inflationary growth.

Setting the clock on time in the international monetary markets and forcing an appropriate financial and budgetary discipline with solid work on the underlying economic basis of both investment and exports, are the only answers for the difficult crossroads Spain is at currently.

The author, an attorney, is a financial and monetary commentator whose work has appeared in many Spanish newspapers and magazines. He wrote this article for this special supplement.

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## BUSINESS BRIEFS

### Warner-Lambert to Buy IMED

MORRIS PLAINS, N.J. — Warner-Lambert, the pharmaceutical house, agreed Monday to buy IMED Corp. of San Diego, Calif., a world leader in medical electronics, for \$163 a share or a total of \$465 million. By purchasing the stock held by management and other insiders, Warner-Lambert will get 51 percent of IMED at once and then will make the formal offer for the remaining shares.

### Montedison Announces Record Loss

MILAN — Montedison announced on Monday that it lost 598 billion lire (\$453 million) in 1981 — a record annual net loss — and said it would seek shareholders' approval to write off the loss against existing reserves.

### ICL Expects Profitability in 2d Half

LONDON — ICL said Monday that its program of cutbacks should enable the group to show a second half pre-tax profit that will more than offset its £13.5 million (\$24.3 million) first-half loss. The expected profit for the year follows a £49.8 million pre-tax loss in the year ended last Sept. 30.

### Hong Kong Real Estate Loan Slated

TOKYO — An international banking syndicate is arranging a loan of 1.5 billion Hong Kong dollars (\$260 million) for a consortium headed by Hong Kong Development, banking sources said Monday.

### NLT Alters Terms of Takeover Bid

NASHVILLE, Tenn. — NLT Corp. said Monday it had amended the early payment provisions of its offer for 11.2 million shares of American General common stock and all outstanding shares of 1980 convertible junior preferred shares.

### Apple Offers Cut-Price Package

CUPERTINO, Calif. — Apple Computer said Monday it will offer a specially packaged Apple II personal computer system for \$1,995. Apple said that if the items in the package, available through Sept. 15, were purchased separately, they would list for \$2,604.

Compiled From Agency Dispatches

## AEG Proposes Change In Corporate Structure

FRANKFURT — AEG-Telefunken plans to propose a new corporate structure soon to an effort to aid the recovery of the electrical goods manufacturer, an AEG spokesman said Monday.

He declined to give details of the plans ahead of next Monday's meeting with the company's bankers.

But he did not deny reports published over the weekend in two newspapers outlining a plan to create about three billion Deutsche marks in "pseudo-capital" from banks, the federal and state governments and other industrial and insurance companies.

Senior AEG officials met last week with government officials to discuss the company's situation. AEG operating loss is expected to total 400 million to 450 million Deutsche marks (\$170 million to \$191 million), compared with a 350-million-DM loss in 1981.

Thomson Talks End

The AEG spokesman also announced that talks with Thomson Brand of France about a partnership in the Telefunken sector have been broken off, "and we will try to find a partner for Telefunken on a national level."

Banking sources have said for several months that AEG appeared to be trying to create a new structure that would transform the parent AEG-Telefunken into a holding company for partnerships in areas where AEG has been active.

According to Frankfurter Allgemeine Zeitung and Borsen-Zeitung, the stock exchange newspaper, AEG would set up two new subsidiaries: One called AEG-Konsum for consumer goods and

the other called AEG Technik for capital goods.

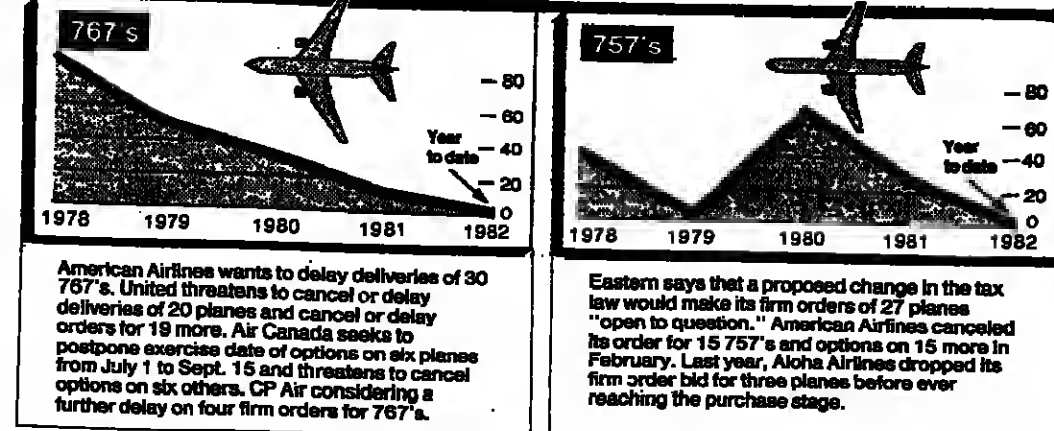
Member banks of the AEG consortium, which rescued the firm from bankruptcy at the end of 1979, would be asked to provide 1.75 billion DM in new loans to aid the venture, the papers said.

The loans would carry no interest for the first five years, and then at a rate of only 2.5 percent for the next five years. The credits would remain in force after 10 years, but would then carry market interest rates, the reports said. In addition, AEG would promise to repay the loans from the profits of AEG-Technik, expected to be a profitable operation.

Stake Said Proposed

Aid would come from the federal authorities as well as state governments, the reports said. AEG is seeking one billion DM in new credit guarantees from the federal government to be applied to the new credits.

## Falloff in New Orders for the Next Generation



## Boeing, Faced by Falling Orders, Fights Cuts in U.S.-Backed Credits

Thomas C. Hayes  
New York Times Service

SEATTLE — Boeing, which makes six out of every 10 commercial airliners in the world, is feeling the pinch. Order cancellations by major airlines have spread, Europe's global territory and the intensity of worldwide recession and high interest rates has cooled the rate of new orders for the largest U.S. exporter.

The turn of events has caught Boeing at a particularly vulnerable time. Its successful 727 program is winding down just as the first deliveries of its new generations of 747 and 757 aircraft approach. With its once-abundant cash reserve evaporating quickly and its quarters, the world's leading maker of commercial jetliners soon will begin a costly borrowing campaign.

This all comes at a time, according to the company, when cutbacks in financing offered by the U.S. Export-Import Bank could jeopardize dozens of new foreign orders, which Boeing says are vital to its long-term success. Boeing gets about 60 percent of its commercial aircraft sales from foreign airlines and hopes to raise that ratio.

If the orders do fall away, Boeing's borrowing could easily exceed \$2 billion in the next 18 months, analysts predict. Yet few analysts foresee a replay of the jolting cutbacks that occurred between 1969 and 1971, when the payroll was slashed to 37,500 from 101,000 and profits slowed to a trickle.

"The year term is still quite tough, but two years out things ought to be better," said Wolfgang H. Demisch, an analyst with Morgan Stanley & Co., the brokerage concern.

Boeing made sharp productivity gains during the 1970s. It enlarged its role as a Pentagon supplier, notably prevailing over General Dynamics for the coveted Cruise missile contract in 1980, and increased its dominance in U.S. commercial fleets at the expense of McDonnell Douglas and Lockheed.

For now, Boeing hopes to ride out the recession and especially the heavy losses piling up at the domestic airlines. American Airlines, for instance, pointed to its own deteriorating balance sheet in February when it canceled \$300 million in 757 orders as well as options for an additional 15 planes.

Boeing is looking to the 757s and 767s to serve as

the heart of its commercial aircraft program into the 1990s. The 757, intended to replace the bigger 727 and set for delivery early in 1983, operates with about 30 percent less fuel consumption. The larger 767 is set to begin deliveries in August. At the same time, Boeing continues to produce the 747.

Meanwhile, Boeing is maneuvering in Congress to protect against or avoid more cancellations.

It is seeking to salvage the safe-harbor leasing law allowing companies with tax credits accumulated through losses to sell the credits to more prosperous companies seeking to reduce their taxes.

Many airlines are losing money and view this provision, which has drawn much criticism, as crucial in their efforts to buy new planes. Boeing is lobbying hard to exclude airlines from any scaling back of the law.

Every cancellation and delay in a delivery schedule will extend Boeing's difficulties beyond next year, said Paul Nisbet, an aerospace analyst with Bache Halsey Stuart Shields. "It could well be 1984 again," he said.

Boeing is also pressing the House to follow the Senate's lead in endorsing Boeing's plan for the Air Force to buy 69 Boeing aircraft instead of Lockheed C-5As, favored by the Air Force. The contract is worth about \$6 billion.

But Boeing's hardest attack is being leveled against the Reagan administration's plan to slash the lending authority of the Ex-Im Bank to \$3.8 billion next year from \$5.4 billion.

Boeing, the leading authority's biggest customer, is campaigning to restore the planned cuts because the aircraft maker fears that the cuts, coupled with new rules from the bank's administrator appointed by the Reagan administration, William Draper, will cause it to lose additional sales overseas to Airbus Industrie, the West European aircraft consortium.

With the first 767s and 757s set to be flying commercially within the next eight months, Boeing is especially troubled that Airbus might get the upper hand with its competing A-310s, which are scheduled to enter commercial service next March.

"If we don't get the customer base in the next year or two" for the 767 and the 757, said O.M. Roetzman, (Continued on Page 19, Col. 1)

## RCA Develops Tube Technology

United Press International

LANCASTER, Pa. — RCA announced Monday a new technology for making color-television picture tubes that it said would cut manufacturing costs.

The method, called COTY-29, improves the design of the tube. The method is applicable to tubes of 13 to 25-inch diagonal measurement.

Receivers containing the new tubes will be demonstrated to manufacturers of receivers in the United States and abroad starting in July. Mass production for the North American market should start late this year.

the television, radio and hi-fi operations of Telefunken Fernseh and Rundfunk, as well as its home appliances business.

West Germany's white collar union, Deutsche Angestellten-Gewerkschaft, sharply attacked the reported plan to restructure AEG into two subsidiaries.

The union said the plan was designed to allow a financially sound West European electrical firm to take a stake in the healthy part of West Germany's eight largest employer while "the remaining parts would not be able to survive long without public help."

"The state would then also have to accept responsibility for tens of thousands of jobs in a part of the company that was not necessarily economically viable," the union said.

## Mesa Changes Tactics In Cities Service Bid

From Agency Dispatches

TULSA, Okla. — Mesa Petroleum has changed tactics and added a second offer to buy 15 percent of Cities Service outstanding stock at \$45 a share to its previous bid for a majority of the shares at \$50 a share.

Mesa president T.B. Pickens Jr., in describing the new offer for 12.1 million shares as "friendly," said Sunday he hoped Cities Service officials would accept the original offer of \$50 a share. He said financing for friendly takeovers can be more easily arranged than for unfriendly attempts.

Mesa said late Monday that it had obtained commitments from a group of nine banks for \$975 million for its second offer.

It said the group was led by Continental Illinois Bank of Chicago and the agreement was still subject to completion of a definitive agreement.

"We're committed to buy any and all shares up to 15 percent, but we specifically reserve the right to buy more if financing can be arranged," Mr. Pickens said.

Mesa currently owns 4.1 million shares, or 5 percent, of Cities Service common.

Mr. Pickens said the latest Mesa offer, worth about \$444.5 million, is being made directly to Cities Service stockholders and needs no action by the board.

The Cities Service board is expected to meet Tuesday or Wednesday to consider the original \$50 offer.

The Mesa board Monday rejected Cities Service bid to acquire 51 percent of Mesa's 73.8 million outstanding shares at \$17 a share.

Mesa said its board determined that the offer was inadequate and not in the best interest of its shareholders.

It urged shareholders to reject the offer, and said that no director or executive officer of Mesa intends to tender any shares.

A spokesman for Cities Service said the company would not comment on the new Mesa offer until it sees the proposal. Cities Service has called Mesa's friendly offer a "weak tactical maneuver."

Mesa said the offer will expire July 2 and the deadline for withdrawal of shares is June 25.

## Dollar Climbs Strongly On Tensions in Mideast

From Agency Dispatches

LONDON — The U.S. dollar closed sharply higher on European foreign exchange markets Monday after retreating from its peaks of the day.

After advancing strongly in the morning on news of clashes between Israeli forces and Palestinians in southern Lebanon, the dollar gave up some of its gains on profit-taking and what dealers perceived as possible central bank selling.

Gold, the traditional investment in times of international crisis, also gained on the renewed Mideast tensions.

"The dollar's advance is due to the fighting in the Middle East and to the lack of anything drastic coming out of the weekend summit," a London money dealer said.

The summit produced a promise by the seven industrialized nations to intervene in the market to prevent sharp currency fluctuations. But the dealer commented, "They've been saying that for quite some time now."

The dollar closed at 2.3815 Deutsche marks, below a high of around 2.39, but well above Friday's close of 2.3593. The British pound closed at \$1.7918, below Friday's finish of \$1.7963.

Like their European counterparts, New York banks initially bought dollars Monday, but then they began to sell when follow-through commercial buying failed to materialize, dealers said. Trading in the afternoon was mostly thin and erratic.

The dollar's slightly easier tone in the afternoon was reinforced by an easing in Eurodollar deposit rates, they said. Three-month deposits closed about 1/16 point below their highs, although they were still up about 1/4 point from Friday.

The dollar was particularly strong against the mark, benefiting from the weekend election losses in Hamburg suffered by Chancellor Helmut Schmidt's Social Democratic Party, dealers said.

The weakness of the mark against the dollar helped to alleviate some of the pressure that had built up within the European Monetary System last week, dealers said. Dealer calculations put the mark at the top of the EMS, but it was only 2.36 percent above the bottom-ranked Italian lira and 1.49 percent above the French franc in the middle.

The Swiss franc rallied sharply in the afternoon as Eurofranc rates, dealers said. It closed at 2.0290 to the dollar, after an opening 2.0467 and Friday's close of 2.0240.

Despite another cut in the Bank of England's dealing rates in the money markets Monday, dealers

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about 44 million shares, compared with the 44.1 million traded Friday.

Analysts said they had expected the rally attempt that had pushed the Dow average up more than two points in mid-afternoon because the average, which lost 14.56 points last week, has dropped 64.22 points since May 7.

But Larry Wachel of the Bache Group said the public does not seem to have any confidence in the market. He said any rally that starts now will probably be in the nature of a technical rebound that would bring the Dow average only as high as 830 before another downturn set in.

Middle East tensions, which have plagued the market periodically since 1973, arose again when Israeli troops invaded southern Lebanon.

Also, traders still were distressed about the economy, which has been in a yearlong recession that does not give many signs of stopping.

Interest rates remained high and showed no signs of coming down soon as demand for loans remained strong and the nation's money supply growth rate was above targets.

In the morning, Continental Bank of Philadelphia raised its prime rate back to 16 1/2 percent from 16 percent, leaving only two major banks — Citicorp and First National Bank of Boston — at the lower level.

On the NYSE floor, several oil stocks performed well, bolstered by the news last week that Britain raised the price of North Sea oil and by projections that domestic gasoline prices will rise.

Gains were recorded by active Unico Oil of California, up 1 1/4 to 36; Atlantic Richfield, 1 1/4 to 41 1/4; Standard Oil of Indiana, 1 1/4 to 44 1/4; and Shell, 1 1/4 to 38 1/4.

## Block Highly Critical Of EEC Farm Policies

From Agency Dispatches

WASHINGTON — U.S. Agriculture Secretary John Block said Monday that chances for settling international trade disputes with Western Europe are "fading rapidly" and could force the United States into "short-run trade wars."

In remarks prepared for delivery at the 91st annual convention of the Illinois Bankers Association in St. Louis, Mr. Block reiterated the Reagan administration's commitment to a free-market philosophy for agriculture.

But he was again highly critical of the agricultural policies of the EEC, which have encouraged commodity overproduction in Western Europe and resulted in subsidized exports by the 10-nation bloc that are interfering with U.S. foreign markets.

"Their perception of world markets is so different from our viewpoint that our hopes for an effective dialogue seem to be fading rapidly," Mr. Block said.

"We have only one alternative," he said. "That alternative is to deviate temporarily from our free market stance and engage in costly short run trade wars. If that is what it takes to achieve the principles of free markets, then we'll have to start looking more seriously in that direction."

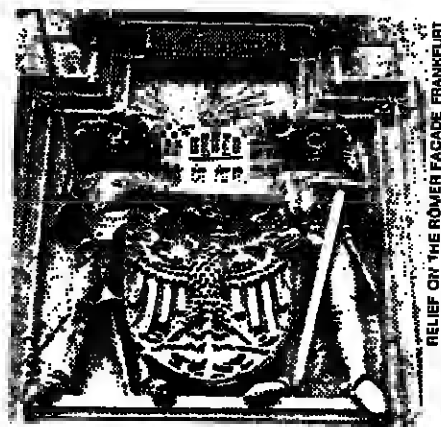
Mr. Block said the government will continue working with other concerned nations to see if international pressure can resolve the problem, but he pledged to stand firmly behind the free market principle.

Mr. Block was also critical of other non-European export competitors, especially Canada, for refusing to curtail their production this year as the United States is doing to cope with price-depressing world grain and fiber surpluses.

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**JAPAN PACIFIC FUND**  
Société Anonyme  
Luxembourg, 37, rue Notre-Dame  
R.C. Luxembourg B8340

Avis de convocation

Messieurs les actionnaires sont convoqués par le présent avis à l'Assemblée Générale Extraordinaire ainsi qu'à l'Assemblée Générale Statutaire qui auront lieu le 16 juin 1982 à 15h15 heures, respectivement 15h30 heures, dans les bureaux de la KREDIETBANK S.A. Luxembourg, 43, Boulevard Royal, Luxembourg, avec les ordres du jour suivants:

Assemblée Générale Extraordinaire  
Ordre du Jour  
Modification de l'Article 19 des Statuts en y ajoutant le paragraphe suivant:  
"En cas de perte réalisée ou de moins-values non réalisées sur portefeuille au terme d'un exercice le Conseil pourra proposer à l'Assemblée Générale Statutaire de prélever sur la Réserve Extraordinaire et/ou sur toute autre réserve constituée, les montants nécessaires à l'apurement de cette perte et à la distribution éventuelle d'un dividende, celle-ci étant soumise aux conditions d'opportunité décrites au paragraphe précédent."

Assemblée Générale Statutaire  
Ordre du Jour  
1. Rapports du Conseil d'Administration et du Commissaire.  
2. Approbation des comptes au 31 mars 1982. Affectation des résultats.  
3. Décharge aux Administrateurs et au Commissaire.  
4. Nomination d'un Administrateur.  
5. Divers.

Les résolutions à prendre concernant l'Assemblée Générale Extraordinaire requièrent un quorum de 3/4 au moins des actions émises et en circulation et, pour être valides, les résolutions doivent réunir au moins 2/3 des voix des Actionnaires présents ou représentés à cette Assemblée.

Aucun quorum n'est requis pour les points figurant à l'ordre du jour de l'Assemblée Générale Statutaire.

Le Conseil d'Administration

CURRENCY RATES									
Interbank exchange rates for June 7, excluding bank service charges.									
	1	100	1000	10000	100000	1000000	10000000	100000000	1000000000
American dollar	1.0000	100.00	1000.00	10000.00	100000.00	1000000.00	10000000.00	100000000.00	1000000000.00
British pound	0.7564	75.64	756.40	7564.00	75640.00	756400.00	7564000.00	75640000.00	756400000.00
French franc	6.5596	655.96	6559.60	65596.00	655960.00	6559600.00	65596000.00	655960000.00	6559600000.00
German mark	1.9363	193.63	1936.30	19363.00	193630.00	1936300.00	19363000.00	193630000.00	1936300000.00
Italian lira	2036.27	203627.00	2036270.00	20362700.00	203627000.00	2036270000.00	20362700000.00	203627000000.00	2036270000000.00
Japanese yen	109.34	10934.00	109340.00	1093400.00	10934000.00	109340000.00	1093400000.00	10934000000.00	109340000000.00
Swiss franc	2.0371	203.71	2037.10	20371.00	203710.00	2037100.00	20371000.00	203710000.00	2037100000.00
Spanish peseta	166.37	16637.00	166370.00	1663700.00	16637000.00	166370000.00	1663700000.00	16637000000.00	166370000000.00
U.S. dollar	1.0000	100.00	1000.00	10000.00	100000.00	1000000.00	10000000.00	100000000.00	1000000000.00
West German mark	1.9363	193.63	1936.30	19363.00	193630.00	1936300.00	19363000.00	193630000.00	1936300000.00
Yen	109.34	10934.00	109340.00	1093400.00	10934000.00	109340000.00	1093400000.00	10934000000.00	109340000000.00



## Market Summary, June 7

[illegible]

## Monday's NYSE Closing Prices

Tables include the nationwide prices up to the closing on Wall Street.

[illegible]

**INDONESIA  
SOUTH SUMATERA  
BUKIT ASAM COAL MINING DEVELOPMENT  
AND TRANSPORTATION PROJECT  
TENDER NOTICE**

**TENDER NOS. 06a, 06b, 06e, 06f**  
**1/2/3/4/5/8/9/10/11/12**

The Government of Indonesia has received a loan from the International Bank for Reconstruction and Development of approximately US\$ 185 million to develop an open pit mine at Bukit Asam, South Sumatra to provide coal to an 800 MW steam power generating plant presently under construction at Suralaya, West Java.

Part of the proceeds of this loan will be used towards eligible contracts payments for the acquisition of equipment delivered duty paid job site if within Indonesia or F.A.S. Port of Embarkation if imported. The following is a listing of equipments by bid package :

DESCRIPTION	KW APPROX	PAY LOAD M/MT	QTY.
<b>Bid Package 06.a</b> Dozers, Loaders, Pipe Layers, Graders, Backhoes			
Wheel Loader	130	3.0	3
Wheel Loader	250	5.0	5
Track-type Loader	150	2.3	1
Track-type Loader	105	1.5	4
Track-type Dozer	225	-	5
Track-type Dozer	105	-	6
Pipe Layer	150	-	3
Grader	135	-	5
Backhoe	95	1.3	3
Hydraulic Excavator	250	3.0	2
<b>Bid Package 06.b</b> Mobile Telescope Cranes			
Mobile Telescope Crane	125	15	2
Mobile Telescope Crane	150	45	1
<b>Bid Package 06.a</b> Drilling Rigs			
Drill-air crawler mounted 100 mm.	-	-	2
Portable diesel air compressor	-	-	-
750 cfm	-	-	2
Blast hole rig w/ air compressor	-	-	3
Exploration rig w/ air compressor	-	-	1
<b>Bid Package 06.i</b> Miscellaneous In-Pit Support Equipment			
<b>Bid Package 06.i.1</b> Rear Dump Trucks	336	31	9
<b>Bid Package 06.i.2</b> Compacting Roller	95	-	2
<b>Bid Package 06.i.3</b> Fuel Trucks	205	-	3
<b>Bid Package 06.i.4</b> Fire Truck	80	-	2

Bidders will be required to demonstrate in-country Indonesia service and spare parts facilities.  
The Bid Documents will be available for a US\$ 100.00 (one hundred dollars) per bid package from  
30 June 1992 at the following address :

**BAMCO**

**Procurement Manager**  
Wisme Pede, 3rd floor  
Jl. M.T. Heryono kav 17  
Telp : 827327, 827335, 827341  
Telex : 48373 PPI IA

**Sealed Bids for this equipment will be due at the address on 16 August 1982.**

(Continued on Page 20)



# U.S. Steelmakers Ask Union to Begin New Contract Talks

CHICAGO — The seven largest steel companies in the United States, citing the depressed condition of the industry and bleak prospects, have asked the United Steelworkers union to renegotiate its basic labor agreement, which is scheduled to expire Aug. 1, 1983.

The contract covers about 250,000 production workers at the nation's major steel mills, including U.S. Steel Corp., Bethlehem Steel, the Jones & Laughlin steel division of LTV, Republic, National, Armco and Inland. The contract also is the model for contracts affecting thousands of workers at smaller steel companies.

The request for new talks to be

gin this month came in a letter signed by the chief industry negotiator, Bruce Johnston of U.S. Steel, and delivered to the union's president, Lloyd McBride on Friday.

The letter, according to a union representative who asked to remain anonymous, "only asked that talks start early, but did not mention specifics. But everybody is assuming that there will be a request for concessions. That seems to be the trend."

Rob Toy, layoff chairman at USW Local 1256, said the Mon Valley Unemployed Steelworkers Committee will meet Wednesday with other groups to plot strategy against any contract concessions.

"Personally, when U.S. Steel spends \$6.5 billion on an oil company (Marathon Oil), I don't want to hear about concessions," he said.

## Meeting Called

The national union has called for a meeting June 18 of the presidents of its 600 locals, who comprise the union's basic industry bargaining conference.

There has been speculation for weeks among the industry observers that steel companies were prepared to ask for a reopening of the contract and for concessions.

But the formal decision by the companies reportedly came last

week at the urging of the chairman of Bethlehem Steel, Donald Trautman, during the general meeting of the American Iron and Steel Institute in New York.

Industry analysts said Sunday that the companies would seek either a new long-term contract or major modifications in existing contract terms, including the open-ended cost-of-living wage escalator clause and the health care provisions.

Industry speculation included the theory that agreements would follow the pattern of being similar to those in the auto industry, which recently got workers to resign pay raises and defer cost-of-living allowances in exchange for

profit-sharing plans, job security and limited plant closing moratoriums.

"The autoworkers generally proceed steel and if they get X percent, then steel asks for X percent plus something," a steel industry source said. "It went that way when they were going up, so I would not be surprised if that was the case when they were going down."

Some smaller steel companies already have requested significant concessions from their union employees, and recently the chairman of U.S. Steel, David Roderick, said that labor give-backs would be necessary to "prevent the liquidation" of the steel industry.

## Boeing Fights Cutbacks In Ex-Im Bank Credits

(Continued from Page 17)

head of international sales, "those programs are going to struggle through."

An estimated 40 percent of worldwide commercial fleets are due for replacement in the second half of the decade. That is a main factor in Boeing's predictions that \$126 billion in aircraft orders will be placed during the next 10 years.

Despite Airbus's weak sales in the United States, the consortium has strong orders in Europe and has pushed hard in the Middle East, Latin America and Africa. The tally to date includes 90 firm orders for the new A-310 compared with 173 for the competing Boeing 767.

Boeing officials refuse to concede that the Airbus is a technological match to their models. Instead, they contend that government subsidies in the range of \$5 billion to \$6 billion have kept Airbus prices in line with Boeing's. They also say a financing package arising from Ex-Im Bank policies puts Boeing at a disadvantage when Airbus can offer a more attractive financing package.

— Airbus says that the A-310 is winning orders on its own technological merits. "We have not achieved market share with slight-of-hand financing," said Pierre Pilleret, senior vice president of marketing. "Our competitors have not lost market share as a result of lack of Ex-Im Bank support and to suggest otherwise is specious."

The United States and the European countries backing Airbus last summer agreed to keep interest rates on commercial aircraft sales locked through September this year at a minimum of 12 percent for 10 years. But the Ex-Im Bank under Mr. Draper, added a servicing fee that effectively raised the rate to 12.5 percent.

In addition, the Ex-Im bank said at first that it would not lend any money to foreign airlines interest-

ed in buying the 747. It argued that inasmuch as no foreign aircraft competitor had so large a plant available, it was not necessary for Boeing to get favorable financing compared with open market rates. Boeing contends that the smaller, shorter-range A-300 does compete against the 747. The Ex-Im Bank is reconsidering its policy on the 747.

No one is certain how many orders Boeing has lost as a result of Ex-Im Bank policies. "There are probably some exaggerations" by Boeing, Mr. Nisbet said. At any rate, he added, "a high level of sales have gone through the Ex-Im Bank, and many would have taken place without the subsidy."

In fiscal 1981, foreign purchasers of Boeing aircraft received \$2.4 billion of Ex-Im's \$5 billion in loans, or nearly all of the \$2.6 billion in loans to foreign buyers of aircraft. But in the first half of this year, just \$40 million has been used in aircraft sales, with only \$11.7 million to a Boeing customer.

For whatever reason, Boeing has lost sales abroad and the company's net income fell 58 percent, to \$61 million, or 63 cents a share, in the first quarter. Sales fell 13 percent, to \$2.1 billion.

Boeing had stored up more than \$2.3 billion in cash by the end of 1979, when huge profits from the 727 and 747 programs were still rolling in.

But with \$3 billion already spent to bring out the 757 and 767 and orders falling, Boeing is spending cash, about \$400 million more a quarter than it is taking in. In the first quarter, airlines announced orders for 23 planes valued at \$725 million, down from the \$2.6 billion on orders for 91 planes in the first three months of 1981.

With an average of \$20 million tied up in inventories during the year, Boeing's cash "is melting like

## The Biggest Names Left on Boeing's Order Pad

767	Orders	Options
United	39	30
American Airlines	30	20
All Nippon	25	15
Delta	20	22
Air Canada	12	18
Trans World	10	10
Other	87	23
<b>TOTAL</b>	<b>173</b>	<b>138</b>

757	Orders	Options
Delta	60	10
Eastern	27	24
British Airways	19	0
Trans Brasil	9	0
Other	8	22
<b>TOTAL</b>	<b>123</b>	<b>56</b>

## Airbus Industrie's Biggest Customers

	Orders	Options
Lufthansa	36	25
Eastern	34	26
Air France	26	22
Swire	10	10
Thal International	12	2
Singapore Airlines	12	2
KLM	10	10
Other	202	62
<b>TOTAL</b>	<b>344</b>	<b>158</b>

snow under the sun," Mr. Demisch said.

That will make it more difficult for Boeing to offer financing to airlines. At the end of March, long-term customer financing amounted to \$315 million, down 19 percent from a year ago.

Boeing followers say that the company has been successful in gauging the unusual, 10-year cycles that characterize the aerospace business. They acknowledge that if the 757 and 767 programs do not catch on, the company could be forced into a major contraction. Most think that is unlikely.

## U.S. Purchase Agents Say Slump Worsened

New York Times Service

NEW YORK — The U.S. economy declined sharply in May, casting further doubts that a recovery will occur until later in the year at the earliest, according to a survey of purchasing managers in the leading U.S. industrial companies.

Production, incoming new orders and employment fell sharply from April, amounting to "the worst performance for new orders and production since December," the National Association of Purchasing Management said.

The rate of decline in the economy has been improving since December, "but May definitely reversed the trend," it said.

The association's findings on May employment conflict with the more encouraging statistics issued by the Labor Department. According to the association, 49 percent of the purchasing agents reported lower employment in May, a number that has not been exceeded since 1958 and up sharply from 38 percent in April.

## 'Bit of a Puzzle'

In contrast, the Labor Department has said that unemployment nationwide rose only 0.1 percentage point in May, to 9.5 percent, and that the number of employed workers actually increased for the first time since January.

"I don't know who is right," said Theodore Torda, a Commerce Department economist who uses the data to create an index of industrial activity. "It is a bit of a puzzle."

## Britain's Surplus In Trade Increased Sharply in March

Reuters

LONDON — Britain's merchandise trade surplus rose 44 percent from February's level to £222 million (\$397.9 million) in March, the Trade Department said Monday.

Exports rose three percent to £45.8 billion, while imports increased two percent to £43.6 billion. The swing from a deficit to a small surplus in trade in non-oil goods was partially offset by a declining surplus in oil trade.

The March surplus on the current account, a broader measure of trade performance, was projected at £331 million, with net earnings from services such as banking, shipping, insurance and tourism estimated sharply lower at £109 million from £480 million in February, it added.

The estimated February current account surplus was revised downward to £264 million from £654 million, the department said, adding that revisions following a change in statistical treatment of change in British budget refunds have also affected previous months' current account surpluses.

In the first quarter Britain's merchandise trade surplus dropped almost 58 percent from the 1981 fourth quarter £224 million, and the estimated current account surplus fell about the same percentage to £553 million. The department said the increase in export volume during 1981 appeared to have peaked during the 1981 fourth quarter.

## COMPANY REPORTS

Revenues and profits, in millions, are in local currencies unless otherwise indicated.

### Australia

ICI Australia	1982	1981
Revenue	437.26	411.71
Profits	17.5	18.39
Per Share	0.992	0.102

### Britain

ICL	1982	1981
Revenue	335.1	316.4
Net Loss	16.2	30.1

### Metals Box

	1982	1981
Revenue	1,195	1,076
Profits	22	14.9
Per Share	0.163	0.076

### Road Unit

	1982	1981
Revenue	1,499	1,400
Profits	54.9	39.1
Per Share	0.473	0.341

### Suzuki, Pakistan in Accord

KARACHI — Japan's Suzuki Motors and the state-run Pakistan Automobile Corp. have agreed to a plan under which Suzuki cars will be built in Pakistan. The companies plan to produce 35,000 vehicles annually beginning in September, sources said Sunday.

## Issue for American Natural Delayed by Lead Manager

Reuters

LONDON — A \$60-million, seven-year Eurobond for American Natural Resources has been postponed due to poor market conditions, lead manager Goldman Sachs International said Monday.

"The borrower wanted a success, and these are not the market conditions for a success," a Goldman Sachs manager said. The bond had indicated terms of a 15 1/2 percent coupon and slight discount price, with final pricing set for June 14.

In Copenhagen, Den Danske Bank said it will issue \$30 million in floating-rate notes to increase reserves. Interest on the issue, managed by Saudi International Bank, will be fixed semiannually at 3/16 point over London interbank offered rates, he said.

Repayment of the notes will be made in June 1989. The issue will be formally signed next week, the spokesman said.

In Frankfurt, market source said the French automaker Renault was raising 75 million Deutsche marks through a private placement of five-year Eurobonds yielding 9.375 percent. The bond, lead managed by Deutsche Bank, carries a 9 1/2

percent coupon and is priced at par.

Bond dealers said the coupon, well above average yields in the domestic market of 9.05 percent for five-year paper, reflects the weaker standing of France in the market and the borrower's losses last year.

The city of Copenhagen was said to be raising 75 million DM through an issue of 10-year Eurobonds yielding an average 9.33 percent. The bonds, with a coupon of 9 1/2 percent priced at 99.5, will be retired in stages after the first two years for an average maturity of 6 1/2 years. Lead manager is Deutsche Bank.

## Massey Defers Salaries To Help Conserve Cash

The Associated Press

BRANTFORD, Ontario — Salaried employees at Massey-Ferguson Ltd. plants across North America are taking pay cuts of 20 to 25 percent for three months and will be repaid in October. The deferral affects all salaried employees including division presidents and Victor Rice, the company's chief executive officer.

## المؤسسة العربية المصرفية ARAB BANKING CORPORATION

At the ordinary general meeting held on March 10th, 1982, the general assembly of Arab Banking Corporation (B.S.C.) ratified the:

- (1) Report of the Board of Directors of the Corporation covering the first financial year of the Corporation ending on December 31st, 1981.
- (2) Financial statements of the Corporation as at December 31st, 1981.
- (3) Auditors report of January 13th, 1982.
- (4) Appropriation of net profits for the period as proposed by the Board as follows:

	U.S.\$ (000)
Total net profits	138,535
Statutory reserve (10 per cent of profits)	(13,853)
General reserve (created on voluntary basis)	(100,000)
Retained earnings	24,682

## Balance Sheet

31 December, 1981

Assets	U.S.\$ (000)	Liabilities	U.S.\$ (000)
Cash and bank balances	3,189	Customers' deposits	495,168
Marketable securities	298,313	Deposits from banks and financial institutions	3,274,363
Deposits with banks and financial institutions	3,094,647	Interest payable	101,273
Commercial loans and advances	1,228,472	Other payables and accrued liabilities	28,685
Interest receivable	132,694	Total liabilities	3,899,489
Other assets	30,709	Equity Capital	
Total assets	4,788,024	Share capital	750,000
		Statutory reserve	13,853
		General reserve	100,000
		Retained earnings	24,682
		Total shareholders equity	888,535
		Total liabilities and shareholders equity	4,788,024

Chairman:  
Abdulwahab A. Al-Jummar

President and Chief Executive:  
Abdulla A. Saudi

## Statement of Income and Retained Earnings

For the 23 month period ended 31 December, 1981

	U.S.\$ (000)
Interest income	618,041
Interest expense	458,889
Net interest income	159,152
Other income - net	2,876
Net operating income	162,028
Expenses	
Staff costs	5,000
General and financial expenses	18,493
	23,493
Net income	138,535
Transfer to statutory reserve	13,853
Transfer to general reserve	100,000
	113,853
Retained Earnings	24,682

## Arab Banking Corporation (ABC)

Head Office:  
Alia Building - Diplomatic Area, PO Box 5698 Manama, State of Bahrain. Telephone: 232235. Telex: 9432 ABCBAH.

New York Branch:  
245 Park Avenue, New York, NY 10167. Telephone: (212) 850 0600. Telex: 427531 ABCNY.

Arab Banking Corporation (ABC), London Branch, Licensed Deposit Taken.  
6-8 Bishopsgate, London EC2N 4AQ. Telephone: 01-283 8511. Telex: 893748 ABC GEN G.

Continental European Representative Office:  
Morgan House, 1 Angel Court, London EC2R 7HJ. Telephone: 01-606 5461. Telex: 8956601-2 ABC-G.



## U.S. \$100,000,000 Manufacturers Hanover Overseas Capital Corporation

13 1/2% Guaranteed Notes due May 15, 1987  
With Warrants to Purchase U.S. \$200,000,000 14 1/2% Guaranteed Notes due May 15, 1989

The 1987 Notes and the 1989 Notes are Unconditionally Guaranteed by  
**Manufacturers Hanover Corporation**

Goldman Sachs International Corp.

Banque Nationale de Paris

Credit Suisse First Boston Limited

Merrill Lynch International & Co.

Salomon Brothers International

Manufacturers Hanover Limited

Banque de Paris et des Pays-Bas

Deutsche Bank Aktiengesellschaft

Morgan Stanley International

Union Bank of Switzerland (Securities) Limited



## Monday's NYSE Closing Prices

Tables include the nationwide prices up to the closing on Wall Street.

12 Month High Low Stock Div. Yld. P/E 100 High Low Close									
(Continued From Page 18)									
24	24	24	24	24	24	24	24	24	24
25	25	25	25	25	25	25	25	25	25
26	26	26	26	26	26	26	26	26	26
27	27	27	27	27	27	27	27	27	27
28	28	28	28	28	28	28	28	28	28
29	29	29	29	29	29	29	29	29	29
30	30	30	30	30	30	30	30	30	30
31	31	31	31	31	31	31	31	31	31
32	32	32	32	32	32	32	32	32	32
33	33	33	33	33	33	33	33	33	33
34	34	34	34	34	34	34	34	34	34
35	35	35	35	35	35	35	35	35	35
36	36	36	36	36	36	36	36	36	36
37	37	37	37	37	37	37	37	37	37
38	38	38	38	38	38	38	38	38	38
39	39	39	39	39	39	39	39	39	39
40	40	40	40	40	40	40	40	40	40
41	41	41	41	41	41	41	41	41	41
42	42	42	42	42	42	42	42	42	42
43	43	43	43	43	43	43	43	43	43
44	44	44	44	44	44	44	44	44	44
45	45	45	45	45	45	45	45	45	45
46	46	46	46	46	46	46	46	46	46
47	47	47	47	47	47	47	47	47	47
48	48	48	48	48	48	48	48	48	48
49	49	49	49	49	49	49	49	49	49
50	50	50	50	50	50	50	50	50	50
51	51	51	51	51	51	51	51	51	51
52	52	52	52	52	52	52	52	52	52
53	53	53	53	53	53	53	53	53	53
54	54	54	54	54	54	54	54	54	54
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56	56	56	56	56	56	56	56	56	56
57	57	57	57	57	57	57	57	57	57
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62	62	62	62	62	62	62	62	62	62
63	63	63	63	63	63	63	63	63	63
64	64	64	64	64	64	64	64	64	64
65	65	65	65	65	65	65	65	65	65
66	66	66	66	66	66	66	66	66	66
67	67	67	67	67	67	67	67	67	67
68	68	68	68	68	68	68	68	68	68
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Closing NASDAQ Prices

12 Month High Low Stock Div. Yld. P/E 100 High Low Close	12 Month High Low Stock Div. Yld. P/E 100 High Low Close	12 Month High Low Stock Div. Yld. P/E 100 High Low Close
24	24	24
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Amsterdam			Close			Prev.			Other Markets			Close			Prev.			June 7			Close			Prev.		
ABN	40	27.70	Denmark	214.00	213.00	De Nederlandsche Bank	126.20	126.20	De Nederlandsche Bank	126.20	126.20	De Nederlandsche Bank	126.20	126.20	De Nederlandsche Bank	126.20	126.20	De Nederlandsche Bank	126.20	126.20	De Nederlandsche Bank	126.20	126.20	De Nederlandsche Bank	126.20	126.20
AFB Holdings	26.00	26.00	Duback	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20
AKZO	24.00	24.00	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20	Deutsche Bank	126.20	126.20
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## SPORTS

## Watson Takes Detroit Grand Prix

By Shav Glick

DETROIT — John Watson of Northern Ireland hurried his McLaren Cosworth from 17th position to win Sunday's inaugural Formula One Grand Prix race through the streets of downtown Detroit.

The 2.59-mile course was narrow, but Watson passed Keke Rosberg for the lead after Rosberg had passed pole-sitter Alain Prost. Watson's winning margin was just over 15 seconds; he averaged 78.2 mph (125.12 kph).

The course was bumpy, but 11 of the 23 starters finished the 62-lap race, scheduled for 75 laps but called after two hours because of a Formula One time limit. City and state officials estimated an attendance of between 75,000 and 100,000.

The only blemish was an hour's delay while emergency crews pulled two cars from the track after six laps. The race was stopped because the cars — Riccardo Patrese's Brabham Turbo and Roberto Guerrero's Ensign Cosworth — were dangerously positioned after a crash. Neither driver was injured.

Prost, winner of two of this year's seven grand prix races, had led easily through the six laps, followed by Rosberg. Didier Pironi, Nigel Mansell and Bruno Giacomelli. Watson was still far back, having passed only two cars when the red flag came out.

Gentle Nudge

When the race resumed, it was apparent that Rosberg was going to catch Prost, whose Renault was having engine problems. Rosberg made his move on Lap 24, moving inside on a turn. His tires nudged Prost's and as they reached the turn together, Rosberg gently nudged Prost aside and took over.

Rosberg jumped to an impressive lead as Pironi, Eddie Cheever and Niki Lauda all passed the ailing Prost, who dropped from second to seventh in one lap. By Lap 36 Rosberg had a 19-second margin, but Watson was beginning to make his presence known. He ran

the fastest lap of the race — in traffic — and passed Giacomelli for fifth place.

Then came Watson's most harrowing moment. Giacomelli tried to pass a few corners later and didn't make it. The Italian's front wheel bashed into Watson's rear wheel, knocking Giacomelli's Alfa Romeo out of the race. Watson continued as if nothing had happened.

Rosberg, meanwhile, was 21 seconds ahead of Pironi, who was another 24 seconds ahead of Cheever, with McLaren teammates Lauda and Watson close behind. In a tremendous burst of speed, Watson passed on the next and then set out after Rosberg.

Lauda, two-time world champion, dropped out when he clipped wheels with Jacques Laffite.

Watson, at 36 the oldest driver in the race, made his winning move on Lap 42. Charging down a narrow alleyway between Detroit's city-county building and the Civic Center Hotel, Watson outbraked Rosberg at the end of the straight and slipped by as they negotiated a 45-degree turn.

"During practice I couldn't find a place to pass, but my car was not working well," Watson said. "In fact it was bloody awful, but we made some last-minute changes and during the race I found areas where I could pass."

"It was easy. I would pass some cars, pass some more cars and race out to the next group. I was able to brake later than the other

cars and still maintain my grip to accelerate out of the corners."

"The most difficult part was continuing to race hard even after I passed Keke. I had to make up the seconds I was behind when the race was stopped."

Under Formula One rules, if a race is stopped, each car is clocked in as it reaches the finish line. The margin of victory thus had to be more than the margin by which Watson trailed Rosberg at the red flag. For instance, if Rosberg had finished "second" only four or five seconds behind Watson, Rosberg would have been declared the winner.

Fortunately for Watson, chances of that happening diminished when Rosberg's Williams lost first and second gear and he slipped back to fourth.

The U.S.-born Cheever, who has lived most of his life in Italy, finished second — his best finish in four grand prix seasons — in a Talbot Matra. Pironi, the lone Ferrari driver after the recent death of Gilles Villeneuve, finished third.

Cheever's second place was protested because his team allegedly refused the car during the one-hour delay. The stewards rejected the protest late Sunday night.

"The finish was very satisfying," said Cheever, who had been fighting the fin all week. "Mine is an old car — 50 pounds heavier than all the others — and I overcame it. I would finish second."

John [Watson] definitely had the best car. I don't think anyone could have beaten him even if they hadn't had problems."



Andrew Toney blew past Earvin Johnson for two of the 76ers' 44 fourth-period points in Sunday's Game 5 of the NBA finals.

## 76ers Whip Lakers, 135-102

From Agency Dispatches

PHILADELPHIA — Kareem Abdul-Jabbar scored six points, his all-time playoff low, and Darryl Dawkins contributed a rare outstanding performance Sunday, enabling the Philadelphia 76ers to rout the Los Angeles Lakers, 135-102, in Game 5 of the National Basketball Association championship series.

It was the Lakers' worst defeat of the season and the worst ever in their long playoff history.

In the second half, the 76ers

who put up only two shots after banging his sore hand during the first half.

"We had a lot of guys in foul trouble and they shot a lot more free throws than we did [34-16 — four Lakers had three fouls each at halftime]."

Johnson said he had jammed the knuckles of his right hand in an earlier playoff series against Phoenix. "I didn't have any feeling in it for a while," said the 6-foot-9 all-star guard. "There were a lot of things I couldn't do. I couldn't reach or hold, and if you can't do that against Julius [Erving], he's going to go for big numbers."

Missing his first seven shots, Erving was held scoreless until 2:21 was left in the first half. He scored 18 of his 23 points in the second half, including 10 in the final period.

Erving said he was disappointed with his performance in the first half, when Andrew Toney carried Philadelphia with 19 of his game-high 31 points.

Long Odds

Asked if he thought the series could turn around now, Erving smiled and said, "I think it's already turned around." But the odds are out with the 76ers.

No team has overcome a 3-1 deficit to win an NBA championship series. Los Angeles was 30-11 at home this season and is unbeaten in six playoff games at the Forum.

Although Coach Pat Riley said he was happy with his team's first-half performance, the Lakers looked like losers in the first quarter, committing 11 turnovers and making only 10 of 24 shots. Still, the game was tied at the end of the period and was close until midway through the third quarter.

Following the 17th tie (70-70), the 76ers went on their game-winning run.

Toney started it with a fast-break lay-up. Johnson missed two free throws and, after a dunk by Erving, Abdul-Jabbar missed two from the foul line.

Bob McAdoo (23 points) made a short jumper, but Toney scored from 18 feet. Dawkins made a baseline jumper and Erving scored on a fast break to put Philadelphia on top, 80-72.

Abdul-Jabbar then picked up an

offensive foul, his fourth, and Riley called time as the sellout crowd of 18,364 roared its approval.

"I was pleased with the way we were playing up until then," Riley said. "In a game like this, it comes down to whoever gets eight or 10 points in a row. In this series, there's not much margin for error."

Of Abdul-Jabbar's poor production, Riley commented: "You get a man in foul trouble and he can't play his game. It makes it very difficult. They were doubling and tripling on him and he's been battered, but he's been battling that for 13 years. He's dealt with it before and he'll deal with it Tuesday."

Dawkins, averaging just 10 points and five rebounds a game in this series, was not nearly as talkative as usual afterward. He seemed aware that he will be facing an aroused Abdul-Jabbar in Game 6. "He's a tough man," Dawkins said. "I don't know why I was able to get inside so much."

Philadelphia Coach Billy Cunningham credited the defense with forcing all Lakers turnovers and starting the 76ers' winning game, which set up 29 fast-break points.

"We proved again that the key to our team is defense," he said. "If we give up easy baskets, we're in trouble."

"Our offense comes from our defense. All of a sudden somebody like Bobby Jones [a series-high 21 points in Game 5] is out on the break. And we're getting the easy baskets."

Said Norm Nixon, whose strong first half kept the Lakers in the game: "I don't think the intensity was equal. They were a lot hungrier than us. Any time you get beaten or really embarrassed — and that was embarrassing — it gives you something to think about."

Jamaal Wilkes took it a step further. He said the Lakers, who took an 11-1 playoff record into Game 5, had begun to believe they might be among the game's greatest teams.

"We were talking about it. They were reading about it and it fired them up," said said. "We overlooked the fact that they are a great team — that this is the NBA finals — and that the 76ers belong here."

## Brewers Complete Sweep of A's, 7-2

From Agency Dispatches

OAKLAND — The Milwaukee Brewers stretched their winning streak to five games — the last four coming under their new manager, Harvey Kuenn — by beating Oakland, 7-2, here Sunday. Milwaukee completed a weekend sweep of the A's, whose pitchers were strung for 29 runs and 43 hits during the three-game series.

The Brewers seem to be responding to Kuenn's low-key manner. "He just takes a careful approach to the game," said outfielder Gorman Thomas, who had a two-run double in Sunday's first inning.

"The whole situation was almost stagnant. We weren't going anywhere. The motivation wasn't there. I'm not going to cut him [former Manager Buck Rodgers] down, but something had to be done. We weren't even playing like a good Triple A team. Picking Kuenn was a good selection."

Ted Simmons added a two-run homer in the Brewer first; Jim Gantner also homered as Pete Vuckovich, with relief help from Rolfe Fingers, gained his seventh victory in nine decisions.

In Cincinnati, Craig Swan, making his first start since April 17, scattered eight hits over six innings and Ron Hodges hit a three-run

home run to lead New York past the Reds, 6-3.

Giants 5, Cubs 3

In Chicago, Jim Wohlford's run-scoring sacrifice fly in the seventh boosted San Francisco past the Cubs, 5-3.

Rangers 5, White Sox 4

In Arlington, Texas, Jim Sundberg lined a two-out run-scoring double to left in the eighth to give Texas a 5-4 squeaker over Chicago.

Astrors 7, Phillies 6

In the National League, in Houston, Phil Garner's base-loaded, single off pitcher Warren Brusstar's glove with two out in the ninth capped a three-run Astro rally as Houston downed Philadelphia, 7-6.

Expos 6, Braves 3

In Atlanta, eighth-inning RBI singles by Gary Carter and Chris Speier were the keys to Montreal's 6-3 decision over the Braves, 6-3.

Pirates 2, Padres 1

In Pittsburgh, Tony Pena's one-out, ninth-inning single off Tim Lollar scored Lee Lacy from second with the winner as the Pirates edged San Diego, 2-1.

Mets 6, Reds 3

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## Stadler Is Winner Of U.S. Golf by 7; 3d Victory of '82

The Associated Press

BETHESDA, Md. — Craig Stadler became the first three-time winner on the 1982 U.S. professional golf tour by shooting a 3-under-par 69 to win the Kemper Open Sunday by seven shots — the year's largest winning margin so far.

Stadler's 72-hole total was a 13-under-par 275. Spaniard Seve Ballesteros was second after a closing 69 gave him his 282. By missing a 10-foot putt for a par on No. 18, Gil Morgan muffed an opportunity to tie Ballesteros. Morgan dropped into a tie at 283 with Jack Nicklaus; their respective closing rounds were 73 and 74.

Stadler birdied Sunday's first two holes, increasing his lead over the nearest challenger from three shots to five. His 3-under-par front-nine 33 created a six-stroke cushion.

The reigning Masters champion, Stadler also won a 1982 tournament in Tucson, Ariz. Until Sunday, Lanny Wadkins' six-stroke Phoenix Open victory had been the year's biggest runaway.

Stadler's 72-hole total was a 13-under-par 275. Spaniard Seve Ballesteros was second after a closing 69 gave him his 282. By missing a 10-foot putt for a par on No. 18, Gil Morgan muffed an opportunity to tie Ballesteros. Morgan dropped into a tie at 283 with Jack Nicklaus; their respective closing rounds were 73 and 74.

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## Sunday's Major League Line Scores

DETROIT GRAND PRIX  
Watson, 1:48.042, 63 laps (coverage inside):  
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2. Eddie Cheever, U.S.A., Talbot Matra. 1:50.240, 63.  
3. Didier Pironi, France, Ferrari Turbo. 1:50.320, 63.  
4. Niki Lauda, Austria, Ferrari Turbo. 1:50.320, 63.  
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